

“Integrating Residential Property with Private Pensions in the EU”¹

FINAL REPORT



in cooperation with

Rostock University (UROS), Andrásy University (AUB), Waterford Institute of Technology (WIT), Technical University of Delft (TUD), The Libera Università Maria Ss. Assunta (LUMSA) and Queens University Belfast (QUB)

Acknowledgements

This report and its Annex present the results of the research project “Promoting the contribution of private savings to pension adequacy: Integrating residential property with private pensions in the EU” led by *iff*, institute for financial services, Hamburg. Financial support by the European Commission, DG Employment, Social Affairs and Inclusion is gratefully acknowledged. We also thank the many participants and stakeholders involved in our work over the course of 2016 and 2017.

This project has received funding from the European Union’s EaSi Grant Programme under grant agreement No VS/2015/0218. This publication reflects only the authors’ views and the Commission is not responsible for any use that may be made of the information it contains.

Co-funded by
the European Union



¹ Authors in alphabetical order: Kerim Al-Umaray, Richard Burke, WIT, Sean Byrne, WIT, Sebastien Clerc-Renaud, iff, Kess Dol, TU Delft, Jörg Dötsch, AUB, Martina Eckardt, AUB, Marja Elsinga, TUD, Michael Feigl, iff, Giovanni Ferri, LUMSA, Declan French, QUB, Marietta Haffner, TU Delft, Peter Hennecke, UROS, Joris Hoekstra, TU Delft, Yogesh Jaiyawala, WIT, Francesca Lipari, LUMSA, John Maher, WIT, Donal McKillop, QUB, Pierluigi Murro, LUMSA, Doris Neuberger, UROS, Stefan Okruch, AUB, Flaviana Palmisano, LUMSA, Felix Piazolo, AUB, Udo Reifner, iff, Tripti Sharma, QUB, Dirk Ulbricht, iff

Executive summary

Purpose and methodology

This report addresses the topic of integrating residential with private pensions in the European Union. It is looking at asset conversion linked to household residential property, such as Equity Release Schemes (ERS), in a context of ageing Europe and housing wealth divergences across it. Currently consumers have mortgages and they have pensions. Both are long term products, requiring advice, involving income and capital, with independent set up costs and competing priorities in terms of their commencement. The potential for integration of these now independent offerings is what was considered in this project.

While examining this issue in detail in six Member States - Germany, Hungary, Ireland, Italy, Netherlands, and UK - it has regard also to the profile of other Member States and of countries outside the European Union. The project was undertaken over a two year period covering 2015 to 2017 and involved detailed compilation, analysis and interpretation of secondary data relating to individual countries. It also required the generation of original qualitative and quantitative evidence consisting of focus groups, interviews and surveys, drawing on the opinions, experiences and perspectives of consumers, suppliers, regulators, non governmental organisations representing the elderly and government departments. The research has allowed for empirical experience, theoretical analysis, frameworks, models and international policy reports.

The project was commissioned and undertaken because of the impact of an ageing population in Europe, the sustainability of existing retirement income frameworks, the materiality and illiquidity of housing assets in portfolios held by segments of the population, and a hypothesis that such housing wealth could play a role in retirement income augmentation. The perspective adopted by the consortium has regard to economic, fiscal, behavioural and legal dimensions in the first instance.

Overall principal findings

Scope for ERS:

There is scope for deployment of property to augment retirement income though such scope is unevenly spread across EU Member States. This scenario is principally a function of the age profile of the population, the extant housing patterns, the cultural approach to savings and housing, and the degree of state involvement in housing and pensions both in direct provision and also by way of incentives.

ERS can only be part of the solution as they are only of interest to a rather small part of the population, i.e. the cash poor but house rich with no bequest motive. Unfortunately, for those in most need of additional income, i.e. low income households with subsequently even lower pensions, ERS is usually not applicable as these households generally do not possess high real estate equity that could be released.

Lenders see a future market in housing equity release products since the population is ageing, pensions are under pressure and housing equity is an underestimated resource. However, finding a good balance between risks and returns is not easy, both for households and for providers. In only a few European countries, such as the UK, a market for housing equity release products has really emerged. In most other countries, such a market is still in an embryonic state or non-existent. Providers of housing equity release products often suffer from a bad image. Indeed, households in serious need can be an easy victim for unscrupulous providers that want to sell untrustworthy (too expensive, bad conditions) products.

Main stakeholders:

Generally the form of property deployment involves variations in ownership, the exchange of cash in different time periods, the degree of risk with respect to property values, mortality, morbidity and interest rates, the availability of capital, and the legal form of contract. Six key stakeholders are involved: households, the State as the default supplier of retirement income and the maker of fiscal rules, the regulatory authorities who supervise

financial markets, financial institutions and their financial intermediaries, and lastly legal actors who devise, advise on, interpret and enforce contracts.

ERS serving different consumption preferences:

The use of ERS differs considerably across EU member states. As an example of the most developed ERS market across the EU, the equity release market in UK is dominated by the loan model (lifetime mortgages). Homeowners demand such products primarily to finance home or garden improvements (63%), followed by to pay debts (31%) and go on holidays (29%). Only 13% of customers need the funds to help with regular bills. This suggests that ERS may serve different purposes from one country to the next. In the UK, the industry has organized itself through a trade association and today, the products are sold with a mandatory 'No Negative Equity Guarantee' that reduces the loan-to-value ratio or the liquidity released.

Consumer awareness:

Even in the most developed market, not many people in the UK understand equity release completely or are aware of this financial product. Equity release schemes can become a regular source of income for people in retirement if there is more transparency about the mechanisms and tax implications of taking out ERS.

Fair propositions, quality standards and multiple providers:

If designed appropriately, priced fairly and sold responsibly, ERS products are able to provide substantial social and economic benefits to individuals in retirement that seek financial solutions adapted to their needs. ERS can support consumers at the peak of their life experience in releasing capital from their homes to meet their daily needs as well as to greatly improve their quality of life.

The market will only be considered consumer friendly however, when there are more providers competing to offer competitively priced products offering greater choice and flexibility to the over 65 year olds.

The US experience, where a sizeable number of providers have been present on the market, also emphasises the need for real competition by ensuring there is a buyer's market where shopping around is possible.

Possible solutions:

The process for ERS deployment could involve a range of solutions for different age cohorts. Younger cohorts may have possibilities not available to their older counterparts already committed to wealth accumulation in housing and other traditional pension fund assets.

The project has sought to develop a hybrid system of old age pensions offering a permanent choice between the conversion of homes into liquid pensions and the conversion of pension savings into homes. This product should be adapted to different legal orders and implemented in a fairly standardised way so that retail markets can offer it at reasonable cost.

Among the solutions that have been put forward to remove barriers to development of market solutions, are a list of minimum quality features, consumer information leaflets to raise awareness of advantages and risks, and a suggestion on how risk sharing mechanisms and product construction could encourage the providers to enter the market.

There could be merit in piloting an urban initiative in a number of Member States, which would examine the effectiveness of one or more product proposals. A joint approach between European and national funding sources could provide the necessary impetus, social cover, commercial cachet, financial oversight and political support that would make this possible. Sharing good practice, robust stakeholder governance, and community participation would be counted among the prerequisites. One way of doing this would be to invite applications from collaborating stakeholders for a specified number of pilot schemes which met defined criteria.

Government role:

There is a need for better coordination across governments with regards to policies on equity release. To ensure that those implementing policy changes have considered the impact on equity release, government and consumers, it is important for a department of the government to take a leading role in this area. Policymakers will have better insight on the use of equity release in fulfilling policy aims such as increasing retirement income or paying for social care if more efforts are spent on understanding the sector.

Instigating the future development of solutions:

The Action has identified a number of technical requirements that such ERS solutions should best meet if they are to provide a meaningful and sustainable solution to the pension shortfalls they are supposed to address. Through features such as the no-negative equity guarantee, mandatory independent advice and other such features, these will assist providers and policy makers as well as representative groups to appreciate these requirements. In the findings of the work, proposed solution pathways also encourage the testing of avenues by stakeholders. The Action will hopefully have shown the possibilities that exist in this area but also the limitations that currently exist and that could be overcome by innovative solutions. Discussions and survey responses with and from key providers have informed the work and proposed solutions. The Action has contributed to a better understanding and awareness of ERS which is still only led by niche players in a very small market in only very few EU member states. We believe that the Action will help to stimulate further consideration and attract the interest of larger banks and insurance companies for development and distribution of an acceptable product with the minimum acceptable features to make them attractive and with limited risk for consumers. Alongside commercial providers, the Action will hopefully also provide ideas for policy makers on how they can lever the development of solutions including how to enhance the willingness and ability for non-profit and government agencies to develop equity release products.

As the research underpinning this report was conducted using a workstream task framework, it is appropriate that the central messages arising from each work stream are set out separately.

Summary of Workstream findings

Need and feasibility for ERS EU wide (Workstream 1)

We find enormous differences regarding the market conditions for ERS in the EU. Regarding overall need and feasibility, measured by demographic pressure, risk of poverty, pension adequacy, homeownership and mortgage market characteristics, the Netherlands and the UK exhibit favourable conditions, the opposite applies to Germany and Ireland, while Hungary and Italy lie in between. Regarding the potential of ERS to reduce old-age poverty, Ireland and the UK have only medium conditions, while the conditions are unfavourable in the Netherlands.

Policy recommendations

Against the background of the varying legal, social and economic preconditions it is not possible to transfer “best practices” from one country to another. As a first consequence, we consider some more general aspects of the transnational potential for ERS. The demographic development will definitely weaken the current pension systems in the long term. This will be a driving force to find alternatives for old-age provision in each of the countries and may generate a development from currently “familial markets” towards a higher degree of commodification of residential property. It is nevertheless difficult to determine the critical point, when wider parts of the population will fully perceive the problem of old-age security and turn towards different solutions.

Policy measures, tools and implications (Workstream 2)

Workstream 2 provides an in-depth analysis of the policy measures relevant for private pensions and residential property in Germany, Hungary, Ireland, Italy, the Netherlands

and the UK. These detailed country case studies are complemented by two additional studies analysing for the EU-28 life cycle patterns of pensions and housing and old-age poverty and housing. We cover a large variety of complex issues like pension systems, taxation, incentive and subsidy programs touching family and social policy, housing and mortgage market structures and development as well as social and cultural aspects. We study and compare ERS markets and their development, estimate the respective market potential, compare and discuss best practices. Our research reveals that both the complex conditions and the policy measures regarding private pensions and residential property differ widely among the six states covered. With regard to the integration of residential property into private pensions there is obviously no lowest common denominator which would allow to compile some of the analysed countries into groups. Nevertheless, to complement the current old age provision system by liquidating residential property seems to make sense in each country.

Policy recommendations

Since taxation and subsidies for private pensions and housing are not adapted to one another, not even within countries, the resulting incentives for investing in these assets are mixed and potentially contradictory. Therefore old-age provision would benefit from increased awareness by national legislator to better attune fiscal and other public policy measures. In addition to better targeted tax incentives, consumers would benefit from better transparency regarding costs and benefits of different saving vehicles for old-age, including ERS products. To this end, a transparent and stable financial system is a necessary prerequisite. Due to the large variation between countries, general product standardization seems not viable at the moment. Follow-up efforts would be worthwhile to identify which products and which product features are most promising to allow for the development of future cross-border markets. Experiences with the PEPP initiative might perhaps draw lessons for implementing such fiscal incentives that are conducive to the evolution of cross-border ERS markets. This would enable in particular member states with only a small potential for ERS markets to gain from economies of scale and scope.

Perspectives on ERS from the consumer focus groups (Workstream 3)

The focus group discussions have shown that there is considerable interest in releasing housing among consumers. A less generous pension and health care system is an important driver for this. Releasing housing equity does not necessarily involve a financial product. A majority of the focus group participants suggests that in case of financial need, especially if one lives in a large house, a house sale combined with a move to a smaller owner-occupied dwelling (downsizing) is the first option. In that case, people are not dependant on financial institutions and they can live rent-free which, for many participants, is one of the main benefits of owner occupation in the later life course.

At the same time, various focus participants stated that they have an emotional attachment to their dwelling. For this people, releasing housing equity while staying in the house (ERS, sale-and-leaseback) would be an interesting option. Indeed, for the consumers in the first two focus groups, using an ERS was often the second option after downsizing.

Apart from the desire to become old in the family dwelling, the interest in ERS seems to be connected to the wish to offer children a helping hand. Many consumers indicate that they prefer to financially help their children when they are still alive rather than leaving a bequest after they have passed away. At the same time, various focus group participants were wary to release too much equity because they might need it for care purposes when they became 'really' old. Financial autonomy turns out to be very important for older home owners.

Many focus group participants indicate that they lack the knowledge of ERS and they would like to have access to objective ERS information from independent sources. Probably as result of the global financial crisis, the trust in financial institutions is low across the board. Introducing uniform product standards, such as the ones developed by the Equity Release Council in the UK, might enhance the trust in the providers of ERS. An awareness campaign of the government could also play a positive role. Preferably, such a campaign should focus on the potential societal benefits of ERS.

In the last focus group, some alternative ERS solutions were discussed. This discussion clearly showed that particular groups (young people, self-employed people, tenants) need some support in their pension provision. Therefore, it seems wise not to limit the discussion of, and product development within, ERS to older home owners alone.

Policy recommendations

- More objective information on ERS should be provided.
- Uniform product standards for ERS should be developed.
- The central government should develop a clear vision on ERS (pros, cons, connection with other policy areas).
- Product development in ERS should not only focus on older home owners but also on young people, self-employed people and tenants.

Providers and ERS markets (Workstream 4)

The number and type of ERS suppliers, market volumes, product types offered, as well as their legal treatment vary widely across EU member states. The market is dominated by the loan model type, even if this is not offered in some countries (e.g. Germany, Hungary). Only the Irish and British ERS markets are well-developed and mature. The products are only eligible for elderly homeowners, whose residence values exceed a minimum threshold. The most common form of payment is as a one-off cash lump sum. ERS markets usually operate only inside the country. According to various stakeholders, the interest in such products is increasing related to the greying population and the increasing demand for care. However, the comparability of the different products remains difficult, and the consumer has to pay various fees.

Equity release products are complex and they expose their providers to a large range of risks. The current risk management mechanism adopted by providers/insurers in combination with stricter Solvency II regulations imply that ERS will never be utilised fully by interested customers due to the low loan-to-value (LTV) in loan model products. Moreover, a low LTV combined with a high interest rate makes the product appear expensive to the customer.

One of the difficulties for the introduction of a European wide ERS product, adequate for sale in the Internal EU Market is the legal definition of the concept. Equity Release has not yet been defined precisely in legislation, even less so in a way that is applicable for the different types of products being marketed at present, or potentially. As the 2014 Mortgage Credit Directive excluded ERS, perhaps a future new instrument may fill the gap.

Policy recommendations

To overcome the main difficulties of ERS a number of elements could be incorporated into the design of ERS products, its marketing and sale. As subsidies and taxation have been used in some countries but do not seem to be effective we reach the conclusion that, whatever the model, type or subtype a possible approach to design a future product could be based on the division of risks that exist in ERS products. Providers, be placed under supervision and in a position to manage at least two main risks through financial markets. They are, risks associated with the assessment of the situation of the person that is contracting (and of the beneficiaries), as well as the risks linked to the value of the property.

Our research suggests that the development of equity release markets across the European Union is contingent upon two main factors. The first relates to an active involvement of European governments in promoting equity release schemes as mainstream retirement planning options, overcoming consumer perception-related barriers and reducing regulatory barriers for suppliers. The second element requires introducing products suiting consumers' needs that would provide them with substantial amount of housing capital at lower costs. This further calls for increased market competition and adoption of better techniques to manage the risks inherent in an equity release offering by suppliers.

Product development - enhancements and new solutions (Workstream 5)

This workstream sought to develop proposals which would provide access to residential property while augmenting retirement income through private pension based solutions. This was undertaken by examining the constituent elements of pension and equity release products, the existing market patterns regarding equity release and the attitudes of individuals to different approaches to providing housing and additional retirement income. Discussions also took place with stakeholders.

Existing equity release products are provided primarily in the loan model, are used to generate lump sums for the householder, offer a no negative equity guarantee and involve fixed costs in terms of financial and legal advice, valuation etc. They are often used where other means of generating cash from a property are not considered attractive by householders or are unavailable. They seem to fit household and supplier needs in stable or rising house price markets. They remain a niche product, albeit one that is showing a steady growth rate in the UK. Market practice has developed therein a manner whereby almost the entire supply side are members of a trade group with a code of practice designed to offer a high level of protection to consumers who avail of the product. In consumers' minds, the product is perceived as commanding a premium price. This price reflects the level of fixed costs, the no negative equity guarantee, the provision of income in cash on the product only after the householder has vacated the property, often 15-20 years later.

The proposals now developed seek to provide additional policy choices with respect to improving affordability. The solutions involve some combination of a redistribution of risk, a redistribution of ownership, a reframing of occupancy, a bundling of pension and housing benefits, individual and collective product models, and product terms involving periods commencing with household formation to those which commence with equity release from freehold property held in retirement. The solutions are aligned with different age cohorts: those who now own a property, those who are already committed to home ownership using a mortgage, and those setting out in household formation. The solutions offer choices that seek to overcome cost or income constraints.

Policy recommendations

The solutions thus could involve the State taking on a risk bearing role. It could offer tax relief on mortgages in the form of as private pension contributions. Others could involve individuals using the savings capacity arising after the repayment of mortgages to contribute to private pensions. These could then be drawn down to service an equity release loan in retirement. Depending on the country-specific policy framework, subsidies or tax reliefs should be used only in so far as to create a level playing field of ERS with other private pension products (e.g. state-subsidized Riester pensions in Germany). Individuals could also substitute a tenancy for outright ownership of a residential property, or have a form of shared ownership through a collective legal structure. Individuals could also commit to releasing equity from a residence at the same time as they obtain mortgage finance for that property. The solutions recognise a spectrum of occupancy scenarios: as a tenant, as a shared owner and as an absolute individual private owner.

Summary of achievements:

A conference and stakeholder meetings at national level as well as expert interviews were held throughout 2016 and 2017. These events concentrated on exchanging and collecting views from suppliers, regulators and intermediary organisations like home associations and consumer protection associations in each of the six countries.

In addition, also in each of the six countries, 3 separate focus group interviews were held with ordinary homeowners and pensioners to gain information about their preferences, needs and attitudes as to ERS products and their alternatives.

Finally, for each country a stakeholder dissemination event and in some such as Germany an information event was organised to raise awareness in regard to ERS products. Leaflets in the respective national language have also been published comprising the main results of the project tailored to the respective national target audience.

Table of Contents

Executive summary	I
1 Description of the Action - Purpose and Activities (iff)	1
1.1 Contextual policy background and tasks of the Action and study	1
1.1.1 Objectives and target groups of the Action	1
1.1.2 The double burden - Main problem needing addressing beyond existing ERS.....	1
1.2 Approach and motivations behind the objectives of the Action	2
1.3 Summary of further research objectives and Action adequacy to European Commission work.....	4
1.3.1 Adequacy to the Call for proposal objectives	4
1.3.2 Action contribution to the objectives of the EaSi programme.....	6
1.4 Project workstreams.....	6
1.4.1 Workstream 1: Pensions and Housing Wealth in the EU.....	7
1.4.2 Workstream 2: Policy options for private pensions and residential property	8
1.4.3 Workstream 3: Favourable conditions for equity release (demand-side)	9
1.4.4 Workstream 4: Equity Release market characteristics (supply-side).....	10
1.4.5 Workstream 5: Solution development, testing and dissemination	11
1.5 Overview of the Activities and Outputs.....	11
1.6 Overview of schedule of the Action	13
1.7 The project team and Six Member State selection	16
1.8 Activities of the Action	17
1.8.1 Stakeholder outreach and involvement	17
1.8.2 Main stakeholder conference.....	18
1.8.3 Suggested product solution pathways	19
1.8.4 Dissemination	19
1.8.5 Website.....	21
1.8.6 Consumer and stakeholder awareness through leaflets and quiz about ERS	21
2 Equity Release schemes (ERS) as an instrument to provide old age security 22	22
2.1 Forms of housing equity withdrawal and definition of ERS	22
2.2 Two Basic forms of ERS: Loan Model and Sale Model	23
2.2.1 Sale Model ERS - Home Reversion Schemes	23
2.2.2 Loan Model ERS: Lifetime/reverse mortgages	24
3 Methodology of the Research	26
3.1 Data used	26
3.2 Stakeholders meetings and consumer focus groups	26
3.3 Empirical survey	27
3.3.1 Individuals and organisations interviewed (all)	27
3.3.2 Questionnaires.....	28
3.3.2.1 Legal experts and regulator surveys	28
3.3.2.2 Provider surveys	29
3.3.3 Participation and general overview of responses.....	30
4 Market conditions	32
4.1 Market conditions across countries	32
4.2 Market potential in selected member states.....	40
4.2.1 Germany.....	40

4.2.2	Hungary	43
4.2.3	Ireland	44
4.2.4	Italy	44
4.2.5	The Netherlands	46
4.2.6	The UK	47
4.2.7	Other countries	48
5	<i>Fiscal incentives and other public policy options for private pensions and homeownership: cross-sectional case study.....</i>	50
5.1	Old-Age Security and Private Pensions	50
5.1.1	Overview	50
5.1.2	Fiscal Incentives	53
5.1.3	Outlook: The Role of Private Pension Schemes for Old Age Security	55
5.2	Mortgage and Housing Markets	57
5.2.1	Mortgage Market	58
5.2.2	Housing Market	62
5.3	Identified Country Best Practices for Integrating Property with Private Pensions ..	71
5.3.1	Private Pensions Policy	71
5.3.2	Housing Market and Housing Policy	73
5.3.3	Mortgage Market and Mortgage Policy	75
5.3.4	Equity Release Scheme Policy	76
6	<i>Perspectives from consumers.....</i>	78
6.1	Introduction	78
6.2	Client characteristics and demand-side risks and challenges	79
6.2.1	Current EU Consumers of ERS	79
6.2.2	Risks and key issues for ERS consumers	81
6.3	Research methods in the focus group research	87
6.4	Results of the first two focus groups	87
6.4.1	Characteristics of the focus group participants	88
6.4.2	Entering home ownership: finance and motives	89
6.4.3	Sources of income at retirement	91
6.4.4	Attitudes to different forms of housing equity release	92
6.4.5	Attitudes towards bequest	96
6.4.6	Equity Release Schemes: experience, knowledge and interest	98
6.4.7	Opinions on integrating ERS and pensions	100
6.4.8	Trustworthiness of providers	100
6.5	Results of the last focus group	102
6.5.1	Characteristics of the focus group participants	102
6.5.2	Preferences for current Equity Release Schemes	102
6.5.3	Purposes for equity release	103
6.5.4	What should a good equity release product look like?	104
6.5.5	Raising trust and awareness	107
6.5.6	Alternative ERS solutions	108
6.6	Conclusions and recommendations	114
7	<i>Providers and products.....</i>	116
7.1	Actual market overview	116
7.2	Providers and products in the six EU member states	118
7.2.1	Germany	118
7.2.2	Hungary	122

7.2.3	Ireland	124
7.2.4	Italy	125
7.2.5	The Netherlands	128
7.2.6	The United Kingdom	131
7.3	Product characteristics	133
7.3.1	ERS Loan Model - Product characteristics	133
7.3.2	ERS Sale Model - Product characteristics	136
7.3.3	Common criteria for all ERS	137
7.3.3.1	Eligibility and Restrictions	137
7.3.3.2	Payment and Guarantees	140
7.3.3.3	Termination and Default	142
7.3.4	Summary of common criteria and main differences	144
7.4	Distribution channels	144
7.5	Risks for providers	146
7.5.1	Risks facing lifetime mortgage providers	146
7.5.2	Risks facing home reversion providers	147
7.5.3	Other risks and provider opinion on risks	147
7.6	Exploring the role for State involvement	153
7.6.1	Limiting the risks for providers	153
7.6.2	Measures to facilitate development of ERS markets - Provider views	154
7.6.3	Market outlook and policy levers - Perspectives from six member states	156
7.6.4	Lessons from state involvement in countries outside the EU	157
8	Legal framework and legal barriers	161
8.1	Legal background	161
8.1.1	Background, summary	161
8.1.2	ERS and the 2014 MCD	162
8.2	Situation in the six member states	163
8.2.1	Germany	163
8.2.2	Hungary	164
8.2.3	Ireland	165
8.2.4	Italy	166
8.2.5	The Netherlands	167
8.2.6	The United Kingdom	168
8.3	Situation in other countries	169
8.3.1	Spain	169
8.3.2	France	173
8.3.3	Sweden	177
8.3.4	Poland	178
8.3.5	Austria	179
8.3.6	Malta	180
8.3.7	Portugal	181
8.3.8	Czech Republic	183
8.3.9	Romania	184
8.3.10	Estonia	186
8.3.11	Slovakia	186
8.3.12	Cyprus	187
8.4	Summary of legal and regulatory situation concerning ERS	187
8.4.1	Barriers for the consolidation of ERS in EU Member States and on a cross border level	187

8.4.2 Perspectives/ recommendations	189
9 Product development.....	191
9.1 Introduction	191
9.2 Outline of solutions	192
9.3 Description of potential models for ERS.....	194
9.3.1 Genesis – from a UK perspective.....	194
9.3.2 Model A: State administered Equity Release Schemes.....	195
9.4 Model B: Savings for servicing home equity release.....	198
9.5 Model C: Lifetime Tenancy	200
9.6 Model D: Lifetime Home Purchase and Equity Release	203
9.7 Model E: Shared Unitised Home Purchase & Home Equity Release	205
9.8 Model F: Integrating Traditional Mortgage and Lifetime Mortgage into One Product.....	207
9.9 Conclusion	214
10.....	References
.....	216
11.....	ANNEX
.....	225

List of Tables

Table 1: Overview of project activities and outputs.....	11
Table 2: Project timeplan	15
Table 3: Project events - meetings and seminars	15
Table 4: Main project dissemination activities undertaken	19
Table 5: Nature of involvement by the type of ERS provider firm (provider survey)	31
Table 6: Overview of questionnaires received	31
Table 7: Basic country statistics and information (2014 values, Min and Max in bold)	33
Table 8: ERS need vs. feasibility: country clusters.....	35
Table 9: Conditions for ERS in the six member states	37
Table 10: Estimations of ERS market potential in EU member states.....	38
Table 11: Description of the ERS market demand (provider survey)	39
Table 12: Key drivers of ERS market development (provider survey).....	40
Table 13: Personal Pension Products.....	52
Table 14: General tax treatment of funded personal pensions (2015)	54
Table 15: Additional financial incentives.....	55
Table 16: Gross pension replacement rates from public, mandatory private and voluntary pension schemes (Percentage of individual earnings).....	55
Table 17: Total outstanding residential loans in selected EU countries (2014)	58
Table 18: Taxation of housing property.....	69
Table 19: The composite index of tax incentives for owner-occupied housing in the EU	71
Table 20: Numerical characteristics of the ERS customers (provider questionnaire)	79
Table 21: Location of typical home (provider survey).....	79
Table 22: Motives for the use of the funds (provider survey)	80
Table 23: Consumer risks (provider questionnaire).....	83
Table 24: Number of participants, location and age distribution of the first two focus groups ..	88
Table 25: Mortgage debt of focus group participants.....	89
Table 26: Sources of retirement, ranked according to importance	92

<i>Table 27: Average ranking of the various housing equity release options in the six consortium countries</i>	<i>93</i>
<i>Table 28: Attitudes towards leaving a bequest in the six consortium countries (based on the focus group results)</i>	<i>98</i>
<i>Table 29: Experience with ERS and knowledge of ERS in the six consortium countries (based on the focus group results)</i>	<i>99</i>
<i>Table 30: Average grade on 1 to 10 scale for the trustworthiness of (potential) providers of ERS in the six consortium countries (based on the focus group results)</i>	<i>101</i>
<i>Table 31: Composition of the third (last) focus groups</i>	<i>102</i>
<i>Table 32: Average ranking of the various housing equity release spending purpose in the six consortium countries</i>	<i>104</i>
<i>Table 33: Characteristics of a 'good' ERS according to the standards of the Equity Release Council</i>	<i>105</i>
<i>Table 34: Average ranking (1= very important, 4 = not so important) of the various characteristics of a good ERS in 5 consortium countries (UK not included).....</i>	<i>106</i>
<i>Table 35: Opinion of the focus group participants about the lifetime lease model, average scores on a five-point rating scale (1=completely disagree, 5=completely agree)..</i>	<i>109</i>
<i>Table 36: Opinion of the focus group participants with regard to 'integrating a traditional mortgage and a reverse mortgage into one product', average scores on a five-point rating scale (1=completely disagree, 5=completely agree).....</i>	<i>110</i>
<i>Table 37: Opinion of the focus group participants with regard to 'shared ownership by tenants and an investment fund', average scores on a five-point rating scale (1=completely disagree, 5=completely agree).....</i>	<i>111</i>
<i>Table 38: Opinion of the focus group participants with regard to 'Pension savings post mortgage payment', average scores on a five-point rating scale (1=completely disagree, 5=completely agree)</i>	<i>112</i>
<i>Table 39: Opinion of the focus group participants with regard to 'Government agency as an intermediary', average scores on a five-point rating scale (1=completely disagree, 5=completely agree)</i>	<i>113</i>
<i>Table 40: Offered ERS and number of sales contracts sold to date (provider survey)</i>	<i>116</i>
<i>Table 41: Product name by number and euro (provider survey)</i>	<i>116</i>
<i>Table 42: ERS schemes that exist in the 6 countries of our case studies.....</i>	<i>117</i>
<i>Table 43: The Italian 'equity release' products for 'the elderly', 2016.....</i>	<i>127</i>
<i>Table 44: The Netherlands: 'equity release' products for 'the elderly', 2016.....</i>	<i>130</i>
<i>Table 45: List of Lifetime Mortgage (LM) Providers in the UK</i>	<i>133</i>
<i>Table 46: List of Home Reversion (HR) Providers in the UK.....</i>	<i>133</i>
<i>Table 47: ERS by product category (provider survey)</i>	<i>133</i>
<i>Table 48: Floors and ceilings to the loans granted (1000 euros) (provider survey)</i>	<i>134</i>
<i>Table 49: Form of interest rates on Loan Model ERS (provider survey).....</i>	<i>134</i>
<i>Table 50: Time of servicing/payment (provider survey).....</i>	<i>135</i>
<i>Table 51: Types of charges (1) (provider survey)</i>	<i>135</i>
<i>Table 52: Types of charges (2) (provider survey)</i>	<i>136</i>
<i>Table 53: Proportion of ERS that has been terminated to date for the following reasons (provider survey)</i>	<i>143</i>
<i>Table 54: Product marketing channels (provider survey)</i>	<i>145</i>
<i>Table 55: Composition of UK stakeholder sample including 16 participants, by type</i>	<i>148</i>
<i>Table 56: Importance of the risks for a provider of ERS on a scale of 1 (very low) to 5 (very high) (provider survey).....</i>	<i>150</i>
<i>Table 57: Biggest challenges or constraints for providers contemplating to enter the market (provider survey)</i>	<i>151</i>
<i>Table 58: Factors included in the scheme design approach adopted by the firm (provider survey).....</i>	<i>151</i>
<i>Table 59: Barriers to development of the ERS market, strength on a scale of 1 (very weak) to 5 (very strong) (Provider survey)</i>	<i>152</i>

Table 60: Importance of state intervention on a scale of 1 (very low) to 5 (very high) (provider survey)	155
Table 61: Product proposal key variables and possibilities	193
Table 62: Solution proposals and their alignment with population age cohorts	193
Table 63: Assumptions underpinning the evaluation of long term tenancy and its substitutes	202
Table 64: Results in assessing long term tenancy evaluation	203
Table 65: List of Variables (Model F)	210
Table 66: Illustrations (Model F)	211

List of Figures

Figure 1: The homeowner's pension challenge	2
Figure 2: Working definition of ERS	23
Figure 3: Advantages and drawbacks of Home Reversion Schemes (Sale Model ERS)	24
Figure 4: Advantages and disadvantages of lifetime mortgages (Loan Model ERS)	25
Figure 5: Number and type of stakeholders interviewed	27
Figure 6: Types of firms (Provider survey)	30
Figure 7: Need and feasibility for ERS compared by country (equal weights)	34
Figure 8: Poverty risk and homeownership rate of the age group 65+: country clusters	36
Figure 9: Estimating ERS market potential	38
Figure 10: Shares of different pension schemes in gross theoretical replacement rates (TRR) for average income earner (2013)	52
Figure 11: Varieties of residential capitalism	63
Figure 12: Housing Markets in the EU - clustering	64
Figure 13: Research about consumer sentiment (provider survey)	81
Figure 14: Checks undertaken when selling ERS (provider survey)	84
Figure 15: The vignette that was used in the focus group discussions	92
Figure 16: Eligibility of property types and forms of ownership (provider survey)	138
Figure 17: Factors leading to exclusion (provider survey)	139
Figure 18: Allowed uses of the property (provider survey)	140
Figure 19: Forms of payment available to the customer (provider survey)	141
Figure 20: Factors that can trigger cancellation of the contract when terms are not honoured (provider survey)	142
Figure 21: Cooperation partners (provider survey)	145
Figure 22: Householder's pension challenge and possible solutions	192
Figure 23: Model B - Savings for Servicing Home Equity Release	199
Figure 24: Model C: Lifetime Tenancy	201
Figure 25: Model D: Lifetime Home Purchase and Equity Release	203
Figure 26: Model E - Shared Unitised Home Purchase & Home Equity Release	206
Figure 27: Model F: Home purchase with tax relief allocated to a pension	209

1 Description of the Action - Purpose and Activities (iff)

1.1 Contextual policy background and tasks of the Action and study

1.1.1 Objectives and target groups of the Action

The target groups for the Action are the elderly populations of Europe (current and future) that have accumulated wealth in form of a housing asset used as their dwelling (owner occupied residential property) and who may seek to supplement their incomes in retirement by using the equity the house represents in order to generate funds to cover their expenses in old age.

The products or commercial transactions which allow equity extraction while ensuring maintained residence in the property are not very common and the objective of the Action was to understand why this is the case and what can be done to remediate the small or non-existent market. This means understanding both the supply side and the demand side. Both aspects of the market have been addressed by separate workstreams.

The opportunities that can ensue from developing the ERS markets and solutions in integrating housing and pensions will not be available for all populations. As a result, the relevance of this Action in terms of contributing to retirement incomes for the elderly that face significant drops in their incomes after their working lives, will be limited for a large segment of the population if they do not own a residential property in their lifetime. Because many retirees living off the lowest incomes in retirement tend to be living in rented dwellings, the poor will generally have fewer opportunities to increase their incomes using their properties. Nevertheless, the very high ownership rates in some countries and the existence of income poor housing asset holders, means there is still some scope for reducing old-age poverty through schemes that allow turning one's home into income. The Action has therefore tried to find ways to both facilitate access to solutions for the low income moderate value housing asset holders (e.g. by exploring risk mitigating and sharing to encourage offers, and through demand side measures such as via information, awareness and trust-building) as well as to suggest alternative ways of integrating housing and pensions for those living as tenants (such as fund based constructions).

However, for the middle-classes, people who have had the opportunity to acquire a housing asset and who wish to continue living in it for the rest of their days, reverse mortgages and home reversions can help sustain income and consumption in old age. This group has a lot to gain from the development of the ERS markets. The project has also sought to make schemes safe and affordable. The project has also reflected on the risk that supplementing state pensions with personal savings (pension, housing, including reverse mortgages) will increase old-age inequality. The objective was to look at the subject matter of insufficient retirement income and provision of housing services holistically. Both decisions for private pension savings as well as home ownership are of a long-term nature, affected for example by one's employment history or family status. (see Annex to report, section 3 on Extra Research, Papers and Books). A life cycle approach has been applied to take also the preretirement aspects into account in our assessment (see Annex section 3.5 Eckardt& Okruch 2017).

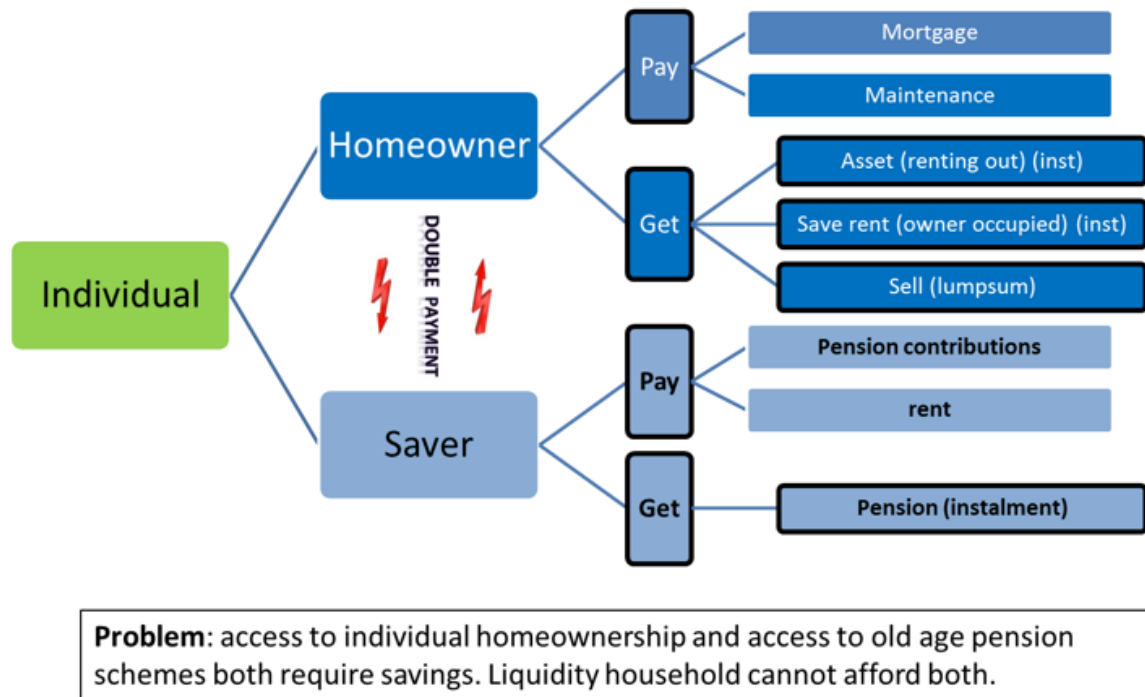
1.1.2 The double burden - Main problem needing addressing beyond existing ERS

The problem the research has sought to address can be summarised as such: Living in a secured own home is widely acknowledged as increasing individual welfare and stability in society. While the upper part of society either inherits a home or is able to save for and acquire a home during their lifetime, which may be handed over to their children, those with liquidity constraints have to finance a home with little chance to built up sufficient equity so that they also own it economically. But there is an additional problem which stems from the shift of old age income from family and social security to private pension schemes which necessitates life long savings. This requirement is in conflict with the

obligation to repay a mortgage. The homeowner has to simultaneously built up equity in his or her home and assets in their pension scheme. This double burden may either lead to ignore the necessities of building financial assets for old age or to resign from homeownership.

This can be graphically shown using the following illustration:

Figure 1: The homeowner's pension challenge



Source: iff

1.2 Approach and motivations behind the objectives of the Action

Issues and intention of the Action

The focus of this project is to overcome conflicts of interests between old age provisions through building up equity for home ownership and savings into private pension schemes. Both kinds of assets play a core role in allowing people of old age to manage their households when labour income is no longer available. The problem is rather new, and is urgent since many European societies are ageing and pension systems are under pressure. The financialisation of pension schemes in modern society has led to a partial replacement of traditional non-monetary resources in old age. Public social security systems (and employer-based systems) tried to compensate for the loss of non-financial support. Defined Benefit solidarity based insurance solutions were based on a similar structure to non-financial systems of the past. However, modern private pension schemes are capital based. Their benefits are defined primarily by the contributions made by the beneficiary. New conflicts of interest have emerged, especially during the pre-pension period. Consumers still have to invest part of their income into building up their professional skills, raise their children and create the social environment, including home ownership, to manage their old age. The more they may save into private pension schemes the less resources they have available for building up the ability to gain income after retirement and to save cost on housing expenditures, health and communication. There is a need for coherent integrated policies for old age and thus aligning pension, tax and housing policies.

The conflict of interest between homeownership and private pension schemes and opportunities for an integrated product

Home ownership was the traditional way of providing for the most important means to survive in old age. It served, not only to secure housing, but was also a tie between different generations, rendered the remaining ability to work productive (i.e. owner repair work), allowed to consume and recreate for elderly people in a cost-efficient way (i.e. garden) and provided safety. Politically, homeownership has also been attributed other positive effects, like stabilising communities and keeping people active. Regarding old age, acquiring an own home and building up equity in it still seems to be the most intelligible incentive for young households to “save” for their future. Home ownership provides an immediate advantage, while savings only show these advantages when people are in old age. On the other hand, investment into homes is fixed and mostly illiquid and may frustrate the respective savings when the home is no longer of use in old age.

The double burden outlined previously of having to save for retirement but also for one’s housing through homeownership aspirations, is a conflict that is not unsurmountable for those that seek to grow old in their property. Besides its usability for the owner, the credit society has developed a second important function of residential property (housing equity): it can be converted into liquid assets. A traditional way would have been to let an unused home to third persons and to receive the rent as a form of an old age pension. However, this form of liquidation requires special skills of the home owner as a landlord and confronts elderly people with unwanted social problems, and is not an option when one is occupying this property. With increasing rent control and the cost the landlord must carry for the maintenance of the home, the return from renting may be low. Profit is primarily derived from the rise of the real estate value in an illiquid form. The sale of the home for liquidation of its value has similar disadvantages. Other forms of equity extraction (e.g. downsizing etc.) are also involved with loss of occupancy.

One traditional option could be to sell the house in exchange for a life annuity (“Sale Model ERS” when conducted by an institution). Intermediaries such as real estate specialist firms and notaries acting as brokers dominate such schemes in some countries. As the project explores, Loan Model ERS are an innovative way to extract liquidity combined with occupancy rights due to maintained ownership. These are partial solutions for liquidity in old age but do not address in themselves the double burden paradox that individuals face earlier in their lives.

Another potential conflict that the project has sought to explore is that which may exist in pension policies. Private pension schemes are widely supported by state subsidies, either directly or through tax exemptions. To prevent misuse, the law sanctions all kind of early withdrawal and even un even continuous savings. Such conditional requirements especially affect the young households with lower incomes as their need for cash in times of shocks. These groups may be asked to choose between subsidised old age savings and unsubsidised saving for a preferred homeownership (e.g. via large deduction of interest for income tax as in the Netherlands).

The credit society has provided solutions to harmonise old age provision saved into the equity of a home and financial pensions.

- (1) The accession to homeownership has made many families enter the credit system. Unlike an unsecured instalment credit, mortgage credit has no moral stigmas and is seen as a normal part of productive life.
- (2) People increasingly understand that the amortisation of a mortgage is an equivalent for savings into their own future: own use of the home itself and use of its financial impact. There are still cultural differences to overcome between savings-cultures (pay off your mortgage) and credit cultures (rent your home from a bank).
- (3) Some Member States provide similar tax advantages and subsidies to the creation of equity as they offer for old age pension savings. The repayment of a mortgage is similar to a contribution defined private pension scheme where the actual market value may differ. If the conversion starts as an annuity loan and terminates in a lifelong reverse mortgage, the relation can be perceived as a lifelong pension scheme.

Lack of an adequate answer from the existing offers

All necessary conditions for a flexible financial product mitigating between home ownership and private pension schemes exist: integration of households into the credit system, understanding of home acquisition as a means to convert financial assets into fixed assets, official acknowledgements of repayments of a mortgage as old age pension savings if effective use in old age can be guaranteed.

For Loan Model ERS for individuals that do not own or inherit a residential property during the earlier parts of their lives, purchasing a property with a mortgage loan is a prerequisite for future equity release in old age. The mortgages have to be used in two ways: paying instalments by homeowners to the lenders during active lifetime, paying instalment from the bank to the homeowner during the professionally inactive part of life. Based on the size of the EU ERS markets today, monitoring the existing financial products that could offer these opportunities according to the needs of the homeowners lets us believe that existing offerings have not yet created a large enough market in which economies of scale and adapted products are able to flourish (with the exception of the UK where competition has led to reduced prices, and range of options).

- (1) In countries where homeownership rates are high but financialisation of homeownership is still very low the residential property markets are not sufficiently developed to facilitate a large mortgage market for owner occupied homes. Life annuities replace the lump sum payment of the price of the real estate. These systems have high transaction cost.
- (2) In many countries, the public generally does not distinguish between reverse mortgages for old age pensions and second charge mortgages where homes are “eaten up” by credit for present consumption causing part erosion of the traditional functions of the home for old age and a factor behind the subprime crisis and instability in real estate markets for homes.
- (3) Where products designed especially for old age prevail, the products are marketed by the fear from insolvency of old people. This fear has created unfavourable conditions where, for example, the property as such (and not only its present value) is transferred to the lender depriving homeowners of the advantage of the increase in market value. It has also created unnecessary problems within families where parents have to disclose to their children that they will never have the chance to get the home they are used to.
- (4) The relation between the saving by paying into a mortgage and the reverse act of getting a pension out of it is not yet harmonised. Often even three products have to be taken out separately: the mortgage credit for the financing of the home, the mortgage credit for the pension and a life annuity for the risk of longevity after the age of 85. Only the latter two products are designed for old age.

1.3 Summary of further research objectives and Action adequacy to European Commission work

1.3.1 Adequacy to the Call for proposal objectives

The main objectives of the action were to produce a body of knowledge on the extent to which housing assets can be used as a source for private pensions in retirement and gather evidence and details of how such products can be designed and supported by commercial, non-profit and state led initiatives. The core interest concerns the relation between home ownership and private pension schemes and will result in greater possibilities and understanding of the potential for equity release product markets from both the demand and supply side.

Through the final report, exchanges and the website, policy makers have and can continue to receive ideas of how they can foster the build-up and subsequent use of equity in residential property and how the necessary legal, regulatory and cultural and business opportunities can be framed and encouraged as part of a household's retirement planning options. The project has aimed to suggest product pathways and designs able to cater for a large range of EU Member States covered by this project. The hybrid system has sought to highlight the positive effects that homeownership has for old age with regard to

expenditure savings from housing consumption, taking into account other important aspects that determine living standards post full time working lives. Such dimensions like family social capital and the ability for household's to generate income from continued part-time self-employed work throughout their retirement are key complementary issues not specifically addressed by the project.

A further objective of the Action was to understand the fiscal incentives that can contribute to mitigating the unintended consequences that may exist in the trade-off that individuals and families face when deciding to either build equity into their own home or and save for their retirement through either investment or insurance financial products.

Also an objective with regards to ERS potential as a solution to old age income insufficiencies, are the consumer safety aspects of the products as well as the framework and rules for advice provision of such products. A prominent role was also given to identifying possible additional safeguards considering the nature and purpose of the product and the target audience, since some of these elderly potential users of equity release may qualify as more vulnerable due to their age and pressure situation to release equity for themselves or their family to meet an income and liquidity shortfall in retirement.

The research has sought to answer the following key questions:

- 1) What role can housing assets play in supplementing private pensions and filling existing and future pension gaps by contributing to maintaining living standards of retirees in the later part of their lives?
- 2) What favourable policies (housing, pensions, social care, taxation) and credit market practices and regulations can promote the build-up and use of housing assets to first increase the share of property in total household wealth and subsequently to receive an income from that asset, whether for renovation, consumption or care? And what role can such fiscal incentives linked to residential property play with respect to other measures aimed at building savings?
- 3) What role can awareness raising campaigns surrounding equity release products and how can these efforts be compared to financial education strategies in Member States?
- 4) What is the range of social and cultural traits across the selected 6 Member States that constitute barriers for the development of equity release products, and which of these traits can be realistically changed?
- 5) What behaviours and preferences do elderly persons choose today with regard to their housing tenure and to what extent will younger generations be open to making different choices for their old age?
- 6) What are the factors that would make providers of these products interested in the business proposition for manufacturing and distributing these?
- 7) Which consumer groups are most and least likely to find these products relevant to them?
- 8) What features of a new product would be able to satisfy the demand and supply criteria across all 6 Member States investigated?

Because of the double-requirement for households to save and to pay for housing services by way of ownership, the research has focused primarily on equity release (conversion of housing asset to retirement income) but also analysed the acquisition or building of residential property (home ownership) by way of a mortgage loan and government sponsored and fiscal supported schemes (e.g. like the German Riester pension fiscal incentives (tax relief and subsidies)) that can be linked to equity release.

The Action has aimed to analyse these forms of housing asset conversion and assess market potential in the six member states DE, HU, IE IT, NL, UK (from both a provider and consumer perspective), as well as assess the legal framework, to suggest a standardised product that has the minimum features to make it marketable across the EU with adaptation to national specificities and legal, tax and regulatory framework.

The objectives of the action were reached through 5 workstreams, including assessing the extent of pension gaps and potential for using residential property as a complementary source of private pension provision (WS 1), understanding the range of policy options to further residential property as a source of private pensions (WS 2), analysing the consumer

demand side of potential markets for housing equity release as a source of retirement income (WS 3), investigating the existing state of market development and potential business opportunities for providers (WS4), and creating solutions and networks for EU knowledge and capability sharing for the integration of residential property in private pensions (WS 5).

1.3.2 Action contribution to the objectives of the EaSi programme

The objectives and the results of the Action have addressed the objectives of the Call and the EaSi programme by addressing aspects with the following measures to raise the quality of supplementary pension schemes and their contribution to secure incomes in retirement.

The Action has contributed to supporting cross-border cooperation of pension and financial service stakeholders including providers by building and centralising the information on the subject of ERS and helping to identify the existing and potential parties involved for development of solutions for housing asset conversion for pension purposes. The focus has been on one specific asset conversion product, the equity release scheme (ERS) and has involved special attention placed on the incentives and institutional frame that could facilitate the emergence of a market for these schemes. This has been delivered through various measures within the Action such as the multi-stakeholder dialogue, the EU conference and 6 national stakeholder seminars as well as through the creation of a website that serves as central depository on the key issues of the subject matter.

The subject matter has explored the potential as well as the existing importance of ERS. Both as a quantitative source for private pensions but also from a quality perspective. First the lack of broad knowledge of ERS is significantly improved through the work and results of the Action. It has increased awareness and the body of knowledge about ERS as a supplementary source of income and has developed a set of criteria to establish minimum safety level for consumers as well as explored ways to improve the profitability for providers. The Action has resulted in providing public authorities with more tools and a range of options to foster additional private pensions through housing assets. The stakeholder engagement has been an important part of raising awareness of ERS as an opportunity. These exchanges are only a start and are expected to continue and include more parties as the awareness of these products become more wide spread. Further campaigns with target stakeholder organisations willing to cooperate on the development or promotion of ERS will be facilitated by the contacts established through the Action. This includes with individual or groups of annuity providers in the various member states, as well as through building work groups with the consumer organisations and other user-based interest groups that represent consumer interests. The safety of these financial products has been an important part of the research and has been an underlying aspect of all propositions in the final report. The final report will be available to stakeholders in industry, regulation, professional bodies, consumer, employee and social organisations, and national and European parliamentary committees. The use of residential property as a source of income in old age will also be fostered by the website and other outputs of the project. For example, through the disseminations of working papers and conference presentations, through the production of a dedicated book (Eckardt et al., forthcoming in 2018).

1.4 Project workstreams

This section provides some details about the workstreams of the Action. The scope of each workstream was primarily the 6 EU Member States of the Action as outlined above with the exception of Workstream 1 which covered the EU 28 and Workstream 4 which also included other EU member states where appropriate in terms of markets and regulation. While Workstream 1 provided an overview of the framework in all Member States, Workstream 2 focused on fiscal incentives and public policy for private pensions and housing, Workstream 3 on basic demand conditions, Workstream 4 on market structure

and conduct, and Workstream 5 on developing solutions for improving market performance.

The 5 workstreams were as follows:

- **WORKSTREAM 1: Pensions and housing wealth in the EU** - Analysis of the fundamental driving factors behind the need for complementary private pensions and feasibility of these to be met through housing assets to deliver adequate and sustainable EU pensions.
- **WORKSTREAM 2: Policy options for private pensions and residential property** - Comparison of the policy options for private pensions and housing and fiscal incentives to address pension gaps and old age poverty.
- **WORKSTREAM 3: Favourable conditions for equity release (demand-side)** - Assessing the appetite and conditions for success in development of an Equity Release market from the demand side (cultural preferences, mobility, tenure, propensity and awareness of equity release).
- **WORKSTREAM 4: Equity Release market characteristics (supply-side)** - Analysis of market and products currently offered and provider propensity for equity release provision including potential market and regulatory barriers.
- **WORKSTREAM 5: Solution development, testing and dissemination** - Pathways for enhancing ERS development and alternative ways to use of residential property for retirement purposes

1.4.1 Workstream 1: Pensions and Housing Wealth in the EU

To assess the fundamental driving factors behind the need for complementary private pensions to deliver adequate and sustainable EU pensions, and the extent to which residential property could be used, the Workstream 1 explored the relative potential relevance of ERS as a solution for complementary income across the EU. To understand the extent of the consumer need for third pillar individual private pensions for all EU Member States and cluster Member States for subsequent extrapolation of the findings from the central 6 Member States subject of the study to the EU as a whole, data from national and EU sources were collected and previous empirical literature was used.

By looking at market conditions for ERS in the EU member states, the workstream constituted the starting point of the project. The research partners who lead this workstream (UROS and LUMSA) used statistical data to measure the growing need for additional old age income as a proxy for potential ERS demand and the feasibility of ERS based on the availability of debt-free houses and the development of the housing and mortgage markets as a proxy for potential ERS supply. The aim was to see in which EU member states market conditions were favourable and where they were less so, and what characteristics these countries have in common. Likewise, it sought to identify which member states show a high need for ERS (or other type of private pension solutions) and to assess whether this need was equally met by high feasibility in the market and situational conditions. Beyond this, the research partner AUB clustered all EU member states according to poverty risk and homeownership rate of elderly 65+, using EU-SILC 2014 data (See Section 4.1, Hennecke et al., 2017, Megyeri 2018).

A range of harmonised data sources were used to map out the need and feasibility matrix for the EU countries. These included Eurostat and OECD official statistics, data from the European Mortgage Federation and cross-country survey data such as the Eurosystem Household Finance and Consumption Survey (HFCS) and European Union Statistics on Income and Living Conditions (EU-SILC). Examples of data include: Demographic pressure on pensions to meet retirement needs (old-age dependency ratios, life expectancy etc.) to provide a snap shot of the situation now and in 2050 (i.e. the situation retirees will find themselves in at retirement age, who belong to cohorts that are respectively 65 and 30 today); Access to and potential mobilisation of property assets as a solution to pensions (extent and distribution of property wealth; Retirement income; house price volatility; Net

income in retirement (all sources of income); Total expected retirement income as % of lifetime average earnings (i.e. replacement rate); Level of homeownership; Access to mortgage credit etc.

1.4.2 Workstream 2: Policy options for private pensions and residential property

With Workstream 1 concerned with providing a comprehensive overview of pension income and housing wealth in the EU-28, Workstream 2 provided an analysis of the main institutional and market factors affecting people's decision to invest in private pensions and homeownership resulting in in-depth analysis of the main public policy incentives for the six countries covered by the Action (DE, HU, IE, IT, NL, UK). Additional relevant policy areas in terms of social inclusion and poverty were also part of this Workstream with a study of the old age poverty and homeownership for the EU-28 to provide an indication of the relevance of ERS to the more vulnerable groups in the respective countries. Besides, life cycle patterns for the EU-28 regarding the main income components as well as taxation and transfers both for population of working age and for pensioners were estimated to gain a better understanding of disposable income for investing in old-age provision. This involved studying the fiscal incentives and other public policy options for private pensions and homeownership and mortgage markets such as the analysis of state subsidies and tax reductions for savings and private pensions as well as for building up home ownership.

The work focused on regulations regarding taxes and subsidies to promote investment in private savings and private pensions as well as in the financing of home ownership. The main differences and similarities between the countries covered in the respective areas were elaborated in a comparative way. Other areas such as family policies, inheritance, were included in a more general way, while long-term care for the elderly was outside the scope of the Action.

The work reported on policies aimed at facilitating private savings combined with home ownership such as outlined in the case study on Germany (see Clerc-Renaud et al., 2018) where the Riester state subsidy scheme was extended to owner occupied housing in 2008 through the "Wohn-Riester" or "Eigenheimrente" (Housing-Riester). For the six countries in our sample we have looked at the existence of such types of financial incentives. But according to our findings the German measures are so far the only ones trying to address both homeownership and private pensions in a combined way.

Other policies which affect social protection, social inclusion and poverty were taken into account in the work wherever possible. However, because the research was based on the existence of housing assets as a source for generating future income streams in retirement, the most vulnerable groups of society are only marginally addressed by the subject matter. Due to the complexity of these issues, the research chose to concentrate only on those public policy regulations that affect decisions on private savings and home ownership. Among the fiscal incentives to increase private pension savings investigated are those linked to how taxation relates (1) to contributions to such schemes, (2) to the returns on investment and the accumulated funds and (3) to the benefits from these pension plans. Also relevant was to look at the extent to which personal pension schemes might also be subject to social security contributions and how subsidies and allowances might be available to incentivize contribution in private pension savings.

The results of the in-depth country case studies are summarised in a comparative way in section 5. A scientific publication looking at the incentives in the six countries in the policy areas of pensions, housing and mortgages has been accepted by the Springer publishing company and will be published and available at the start of 2018 (Eckardt et al. 2018).

A detailed analysis of all relevant factors and dimensions affecting policy options around housing, pensions and ERS was beyond the scope of this project. The work in this workstream was also linked to consumer financial literacy and awareness of private pension options and ERS and therefore provided input for other workstreams.

The purpose of Workstream 2 was to provide a concise understanding of the different incentives set by public policies on the demand side, affecting the market potential for ERS. The output of this workstream, including ways the state could be involved, informed the designing of product solutions aimed at combining homeownership and private pensions for old-age income security tailored to the particular needs and preferences of the target group. It also served to highlight the interconnection between policy fields e.g. to stress the closely interconnected housing and mortgage markets when subsidization of the acquisition of new homes or for renovating and enlarging private property or for adopting energy-efficient construction.

1.4.3 Workstream 3: Favourable conditions for equity release (demand-side)

Previous empirical evidence demonstrates that in many countries households are suspicious about housing equity release products (Doling and Elsinga, 2013). They do not trust lenders and complex products. Nevertheless, at the same time they state that they might use such products in case of urgent need.

In this workstream we have sought to understand the extent to which demand constraints and consumer preferences can be overcome in order to facilitate the development of the ERS market and its solutions to the pension shortfalls.

The aim of this project is to search for trustworthy solutions that are supported by both providers and households and that allow for the development of a well-functioning and well-regulated market of housing equity release products. The purpose of work stream 3 was to get insight into the way in which housing equity release products are perceived by the consumers. For this purpose, 3 focus groups were organised in each of the 6 countries. In the focus groups, households reflected on the different dimensions and features of housing equity release:

The first two focus groups were identical and covering a maximum of 10 individuals per group) explored attitudes to homeownership and ERS as a way of equity extraction. In total 12 focus group interviews with consumers from six EU member states (Germany, Hungary, Ireland, Italy, The Netherlands and the United Kingdom,) carried out by the researchers of the project. Issues included:

- reasons for housing equity release: why do people want to release housing equity and how do they want to spend this money?
- different ways to release housing equity: moving to the rental sector, moving to a cheaper owner-occupied house or buying a financial product?
- cultural dimensions of housing equity release: the obligation/norm to bequeath
- knowledge on financial products: what do people know about financial products, particularly in the field of housing equity release?

A third focus group was held later in the project, again in all countries. This one focused more on the details of the different types and explored the propositions elaborated by the project team. Topics included:

- Intention to gain knowledge: to which extent do households want to understand housing equity release products? What is the best way to approach households with regard to this topic?
- Preferences: what do we expect, what are necessary conditions for housing equity release products?
- Relative interest and relevance of alternative solutions that have a same objective of providing income and housing services in old age.

In the focus groups, so-called vignettes (standardized typical cases or situations that are the same for all countries) were discussed with the respondents. The vignette methodology avoided a too narrow focus on nation specific institutions and circumstances and was chosen to enhance the cross-national comparability of the research findings (Quilgars et

al, 2009). In each of the six countries three focus group meetings were held. Most of the focus group participants were older home owners.

This workstream was led by partner TU Delft who prepared the design of these focus group meetings in cooperation with the other partners in the consortium.

The results of the focus group discussions are reported in Section 6. Summaries of each of the focus group discussions can be found in the annexes.

1.4.4 Workstream 4: Equity Release market characteristics (supply-side)

The first phase of the project focused primarily on Workstreams 1 to 3. In the second part of the project Workstream 4 was carried out to investigate the providers and market for ERS.

On the basis of the findings from Workstream 1 and 2 which looked at the different market dimensions which serve the use of owner occupied homes for old age provision (the real estate market for its availability of suitable houses and flats; the mortgage market which facilitates its financing; the market for private pension products), this Workstream focused on the market for equity release schemes. Ideally one flexible financial product designed for lifetime should cover the different stages in the changing relation between homes and pensions during the savings as well as the pension period where the pension is either paid out of the use of the home or its liquidation depending on the needs and preferences of its owners.

As a basis for the analysis of the supply side of the ERS market, the research team, led by iff, used the findings of the European Commission Study on Equity Release Schemes in the EU (Reifner et al, 2009). In that study, Spain, the UK, Ireland, Hungary and France were found to be the only EU member states that had facilitated and regulated the use of ERS. For the other countries the traditional forms of mortgage loans, consumer credit, retirement pensions and domestic property sales were the only separate ways to use different markets to combine them to meet consumer needs. The work therefore focused on updating the situation regarding the size of the markets across the EU and the providers that were present in this field as of 2016. These markets and products were analysed by separating them into those of a Sale Model and those of a Loan Model since these provide a similar solution but through two very distinct markets: the market for financial services (the reverse mortgage bank based product), and the property sales market (where real estate specialists facilitate the payment of pensions out of the sales price for existing property).

Also part of this workstream is looking at the role of the state to provide support and impetus for provider engagement in this market whether in the form of influencing banking sector participation through risk sharing, or through product safeguards and awareness campaigns that would improve the legitimacy of ERS as solutions for elderly homeowners.

Regulation will be a determining factor in provider engagement and the legal framework reflecting the cultural as well as market differences have been investigated. In most countries, it still reflects two quite distinct choices: acquiring a home and paying it off for old age and the own children on one side and saving into a pension scheme on the other. Countries vary in the extent they set rules and clarify expectations and country experience with specific regulations such as in Italy, where a legal definition of a reverse mortgage is contained in the Law of 2005 enacting miscellaneous rules on urgent measures against tax evasion and provisions in tax and financial matters. Aspects such as capital requirements in prudential regulation of lenders and insurers were part of the research as these need to balance the need for safety of the system with attractiveness for long-term products such as ERS. The greater rules affecting ERS Loan Model were also compared to those existing for Sale Model ERS. In order to develop a flexible product that can serve and guide potential homeowners from an unwanted choice between a savings scheme for future use or a living scheme with future use the development of the different markets and the cultural and legal environment were taken into account. The results of this workstream have fed into the work of the Workstream 5.

1.4.5 Workstream 5: Solution development, testing and dissemination

In this Workstream we focused on examining pathways that offer meaningful solutions for the integration of capital embodied in residential property with the need for retirement income. At its core it followed the concept of product integrity: achieving a sustainable balance between the legitimate articulated interests of consumers, suppliers, regulators, fiscal authorities and society at large. Puro 2013 (page 90) observed with respect to the Finnish pension model and the social innovation it represents: It is a balanced system, made up of diverse elements and developed with joint effort to respond to the needs of society at each time. This project was geared towards such social innovation.

The team with responsibility for this package consisted of researchers with experience of behavioural finance, financial markets, consumer and mortgage lending, regulation, capital allocation, consumer advocacy, product development and public policy with respect to the financial sector. The members drew on the empirical and conceptual work undertaken in the other four work packages, as well those from the aforementioned domains. These earlier stage activities laid the foundations on which solutions were then built. The national experiences in residential property and its financing together with the models of retirement income provision from earlier workstreams provided input to the thinking. The national perspectives on how domestic paradigms have evolved yielded insights and ideas that were then matured and refined. Earlier efforts thus facilitated the creation of a rich and nuanced set of product-market propositions. It has sought to express designs with acceptable rigour and where exposed for critical assessment to stakeholders across jurisdictions whose feedback gave rise to further refinement and a purer output on completion.

While recognising the complexity that exists with respect to mortgages and pensions, the precedents for innovation in consumer financial services that were considered included the development of UCITS and the recent PEPP proposal for pan European products.

Complementing the thrust towards a solution, this workstream together with other ones have formulated and produced materials that can help financial literacy and cultural positioning of such value propositions. Norman (2013) in treating of design in a business context emphasises certain attributes: Superior design requires stepping back from competitive pressures and ensuring that the entire product be consistent, coherent and understandable (page 263). This Workstream has thus also create communication offerings for consumers in several European languages aligned with the product market solutions that reflect the principles identified.

1.5 Overview of the Activities and Outputs

The table below outlines the activities and outputs by workstream that have been used in a multidisciplinary perspective leading up to final report and deliverables such as website. The instruments implicit in the methodology include the procurement and examination of secondary data, the generation of primary data and evidence through questionnaires, surveys, expert roundtables/workshops, focus groups and exposure of working papers to academic peers and stakeholders through conferences, electronic platforms and direct interaction.

Table 1: Overview of project activities and outputs

	Activities	Output
Management and Coordination	2 Day Meetings and coordination calls; Conference	Kick-off meeting 1 (2015), Team meeting 2 (2016), Team meeting 3 (2016), Team meeting 4 (2017), bi-monthly Skype calls.; Conference in Hamburg (May 2017) (Does not include national stakeholder meetings)

Workstream 1: Pensions and Housing Wealth in the EU	<p>Research, knowledge, data collection, cross-country analysis</p>	<p>Paper 1: Hennecke et al. (2017), "Pensions and Housing Wealth - Quantitative Data on Market Conditions for Equity Release Schemes in the EU"</p> <p>Paper 2: Megyeri (2018), "Old-Age Poverty and Residential Property in the EU – An Analysis with the EU-SILC 2014 Data",</p> <p>Summary in Section 4.1 of the Final Report both summarized in the Annex to the Final Report</p>
Workstream 2: Policy options for private pensions and residential property Poverty, other public policies and Housing Life cycle patterns	<p>Research, analysis and drafting country case studies;</p> <p>Selected Interviews and seminars</p>	<p>Book publication with the country case studies due 2018: Eckardt et al. (2018), "Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options, Springer publ., forthcoming</p> <p>Comparative overview of the country case studies in section 5 of the Final Report (input for other workstreams and stakeholder engagement)</p> <p>Paper 2: Megyeri (2018), "Old-Age Poverty and Residential Property in the EU – An Analysis with the EU-SILC 2014 Data",</p> <p>Paper 3: Eckardt & Okruch (2017), "Personal Old-Age Provision and Private Homeownership: Life Cycle Patterns – Research Paper, Workstream 2.2"</p> <p>both papers summarized in the Annex to the Final Report</p>
Workstream 3: Favourable conditions for equity release (demand-side)	<p>Research, analysis and drafting;</p> <p>Selected interviews and stakeholder seminars</p> <p>18 focus groups with consumers</p>	<p>Section 6 of the Final Report</p> <p>18 Focus group summary reports (3 per member state)</p> <p>Section on the website</p> <p>Article TUD (forthcoming)</p> <p>Summaries in the Annex to the Final Report</p>
Workstream 4: Equity Release market characteristics (supply-side)	<p>Research, analysis and drafting;</p> <p>Design and administration of standardised questionnaires for providers and regulators</p> <p>Selected interviews and seminars</p> <p>Organisation of expert workshops (6 Member States)</p>	<p>Section 7 and 8 of the Final Report</p> <p>Answers from the provider interviews and survey have informed the relevant sections of the final report.</p> <p>Presentations at seminars and the conference</p> <p>Surveys of regulators and legal experts have informed the final report on regulations</p> <p>Report of expert workshops either as standalone reports or integrated in the final report</p> <p>Publication on websites</p>

Workstream 5: Solution development, testing and dissemination	Research, analysis and drafting Interviews Product Modelling Testing of product template Dissemination	Section 9 of the Final Report Template product drafts Input into Final Report (see Management) Publication on websites Press releases Book publication Information event
--	--	--

1.6 Overview of schedule of the Action

The project lasted 27 months. The Action started later than planned and was extended by 3 months due to timing of summer holidays. Three Workstreams (WS) started from the outset of the project. All Workstreams fed into each other. Preparatory desk research and elaboration of various questionnaires and interview guides.

WS1 primarily consists of desk research and economic data modelling, other WS involve surveys and interviews. Consumer focus groups took place in 2016 and later again in 2017. National stakeholder expert workshops were held in 2017 with the exception of Italy which held its event in 2016

Year 1: Sept 2015-Sept2016

- Kick-off meeting among all research partners in Hamburg (iff in 2015)
- Research on WORKSTREAM 1) & a Working Paper 1 (Hennecke et al. 2017, see website or Annex)
- Research on WORKSTREAM 4 and 5), interviews and meetings with providers and selected stakeholder experts (e.g. EPPARG, 2016)
- Two day interim meeting for coordination with results of WS1 and drafts for other workstreams in Budapest (April 2016)
- Research on WORKSTREAM 2): Case studies in 6 member states looking into fiscal incentives and public policies for pensions, mortgages and housing, draft of a comparative overview and draft of the single case studies for book publication; research on old-age poverty and housing & a Working Paper (Megyeri 2018, see Annex)
- Research on WORKSTREAM 3) and preparation of focus group guidelines and running of these in two separate meetings per member state
- Stakeholder event in Italy
- Preliminary work on other workstreams.

Year 2: Sept 2016 – November 2017

- Two-day interim meeting for coordination with focus on results from WS2 and WS3 and plans for WS4 and 5 in Dublin (November 2016)
- Research on WORKSTREAM 2): Estimation of life cycle patterns across the EU-28 of income components, taxes and subsidies during workable age and for pensioners (mid to end 2017) & Research Paper WS2.2 (Eckardt & Okruch 2017, see website or Annex)
- Research on WORKSTREAM 4): drafting questionnaires for regulators and providers based on desk research and preliminary interviews; followed by survey administration and analysis of findings (mid 2017)
- Expert workshops with key stakeholders in 5 member states

- Conference in May 2017 with international audience, followed by final team meeting where draft structure of the final report was decided.
- Research on WORKSTREAM 3) and preparation and running of third and final focus group guideline incorporating work from WS5.
- Development of the website and consumer quiz about ERS
- Consumer information leaflet drafted and translated
- Finalisation of the book publication (output of WORKSTREAM 2, Eckardt et al. 2018, see Annex)
- Information campaign to disseminate project findings in each of the 6 MS; education events held in a couple countries with a range of non-profit entities;
- Final report completed and issued; End results of the research made public on the project & partner websites & a press release issued

The following timetable shows the stages of the project that started on September 2015 and ended in November 2017.

Table 2: Project timeplan

	2015				2016												2017											
Project start date: 1.9.2015	Se p				Ja n						Ju l						Ja n							Ju l				No v
Month from start	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	
WS1: EU pensions and housing wealth: Conditions and driving factors																												
WS2: Policy options for private pensions and homeownership																												
WS3: Favourable conditions for ERS (demand-side)																												
WS4: ERS Market characteristics (supply-side)																												
WS5: Solution development, testing and better practice																												
Meetings of the project group (Hamburg, Budapest, Waterford)																												
Dissemination activities (website, stakeholder meetings, educational events (for NGOs incl. leaflets), conference, final report, and book publication)																												

Meetings and seminars within the Action are outlined in Table 3 below.

Table 3: Project events - meetings and seminars

Type of event	Date of events	Venue
Formal meetings		
Project Coordination Meeting 1 (Kick-off)	7 October 2015	Hamburg
Project Coordination Meeting 2	14-16 April 2016	Budapest
Project Coordination Meeting (not all partners)	21 May 2016	Waterford
Project Coordination Meeting 3	2-5 November 2016	Waterford
Project Coordination Meeting 4 (Final)	12 May 2017	Hamburg
International Stakeholder conference	11 May 2017	Hamburg
Consumer Focus groups		
Germany (3 times)	8 August 2016; 25 October 2016; September 2017	Hamburg
Ireland (3 times)	December 15, 2016, August 26, 2017	Waterford, Dublin, Waterford

Hungary (3 times)	September 6, 2016, October 20, 2016, October 20, 2017	Budapest
UK (3 times)	Autumn 2016, September 2017	Belfast
The Netherlands (3 times)	August 31, 2016, September 7 2016, October 2, 2017	Delft
Italy (3 times)	September 15, 2016, October 6, 2016, October 9, 2017	Parma, Rome, Parma
National stakeholder meetings, expert seminars and educational events		
Germany	20 October 2017	Hamburg
Ireland	Several meetings, see Annex for details.	Dublin
Providers of ERS (organised by the EPPARG)	7 July 2016	London
Stakeholder event by EIOPA	18 October 2015	Frankfurt
Stakeholders meeting in Delft	21 September, 2017	Delft
Stakeholder event organized by AUB	23 June 2017	Budapest
Stakeholder meeting (between AUB and the Hungarian Central Bank)	8 November 2017	Budapest
Stakeholder meeting (between AUB and Imre Hild, founder of the first ERS in Hungary)	28 November 2017	Budapest

1.7 The project team and Six Member State selection

The Consortium that carried out this research from September 2015 to November 2017 was made up of the following partners: Institut für Finanzdienstleistungen e.V. (iff), Rostock University (UROS), Andrassy University (AUB), Waterford Institute of Technology (WIT), Technical University of Delft (TUD), The Libera Università Maria Ss. Assunta (LUMSA), and Queens University Belfast (QUB).

Together these project partners represent institutions in 6 EU Member States from DE, HU, IE, IT, NL, and the UK. The project has mainly focused its work on those EU Member State. They have been selected because they represent a range of geographical, social, economic, and equity release market countries from across the EU².

Application of the findings of the project with regard to the integration of residential property and retirement incomes are not just relevant to those 6 member states but others as well.

In order to inform the pertinence of ERS and integration of housing and pensions for supplementing retirement incomes for the EU generally, the research team has sought to put forward a minimum acceptable product based on better practice gathered from its research. This acceptable ERS should hopefully be sufficiently attractive for consumers and providers so that it could be marketed across the EU. Whether such products can be marketed cross-border on an EU-wide scale would require further investigation since, as the research findings confirm, national differences with regard to regulatory orders, economic and financial market development, employment, pension schemes and tax

² See Output Workstream Paper 1 for the representativeness of the selected 6 EU member states to allow extrapolation to the EU generally.

systems as well as in the extent and the cultural attitudes towards home ownership are significant.

For the research to allow extrapolation of the findings to across European countries, the research team and country focus was built at the application stage around six purposely selected EU member states (Ireland, UK, the Netherlands, Germany, Hungary and Italy). These countries cover the main types of differences that can exist in the EU-28 and allow the transfer of the empirical findings in regard to the different dimensions. These aspects are summarised briefly below (but see Paper 1 on Conditions for ERS):

- **Legal origin:** Countries from different legal origins differ in many respects when it comes to regulatory and taxation rules (LaPorta et al, 1999). The country selection covers four out of the five types of legal origin (British legal origin (UK, IE), French legal origin (IT, NL), German legal origin (DE), socialist legal origin (HU));
- **Economic differences:** The UK, Germany and Italy represent large countries compared to the Netherlands, Ireland and Hungary (as measured both by population size and overall GDP) and overall living standards as measured by GDP per capita (in PPP) shows that the Netherlands, Ireland and Germany are above the EU-28 average, while the UK and Italy slightly below and Hungary somewhat more. These are indicators of market size;
- **Financial stability and vulnerability:** Four of the countries included are members of the Eurozone (Germany, Italy, Ireland, the Netherlands), while the UK and Hungary have their own currencies. However, the UK is a large open economy compared to Hungary, which as a small open economy is rather vulnerable with regard to financial market instabilities. Furthermore, as the recent financial and Eurozone crisis showed, there are also large differences among Eurozone members with respect to financial vulnerability (see Ireland and Italy compared to Germany and the Netherlands);
- **National pension systems and old age poverty:** The countries differ regarding the importance of public, occupational and private pension schemes, and while Hungary, the Netherlands and Ireland show a below average risk of poverty rate for person aged 65+ (2012), this risk is above average for Germany, the UK and Italy;
- **Home ownership rates:** While Germany and the Netherlands have a very high share of persons living in rented dwellings, the other 4 countries show very high rates of homeownership, with Hungary leading;
- **Mortgage markets:** These are more developed in countries like the UK and Ireland (which is a key element facilitating Loan Model ERS), and less so elsewhere;
- **Private pensions incentives:** Countries have differing policy measures to encourage voluntary saving and Germany for example has a special scheme the so-called “Wohn-Riester” scheme that combines pension subsidies with homeownership;
- **Past existence of ERS:** The European Commission study (Reifner et al., 2009) identified multiple providers in the UK, Ireland, and Spain, and several providers in Italy, Hungary, Germany, with one in the Netherlands;

1.8 Activities of the Action

In addition to the activities described in this section, management and coordination of the project was undertaken by iff along with the co-beneficiaries in terms of monitoring the activities and outputs of the project. Tools to do so included internal reports and feedback on draft outputs, bi-monthly conference calls to discuss and monitor progress and for joint decision making. The following are the activities conducted during the Action.

1.8.1 Stakeholder outreach and involvement

As part of the project, information was gathered and ideas exchanged with a number of various stakeholders throughout the project duration. Some of these interactions served the purpose of input and knowledge from those that had valuable experience to share with the research team, whereas other interactions were more about dissemination and

gathering feedback from a multiple of persons and viewpoints. The main stakeholder engagement was concentrated in the six countries of focus for the Action (UK, Germany, Ireland, Italy, Hungary and the Netherlands). They represent an appropriate representation of the country typology with regard to ERS development.

The main EU level stakeholders were from the provider side, namely the European Pensions and Property Asset Release Group (EPPARG) a trade association created in 2013 that assembles the key providers of ERS from Europe. EPPARG seeks to foster dialogue between industry, EU institutions and governments on innovative pensions and property asset release solutions and interactions with this group were important to understand the provider perspective and the issues affecting the supply side and future development of the ERS markets in the EU. The project team communicated several times with the EPPARG and a meeting was organised with many of its members in 2016 where preliminary findings were presented to them and a number of presentations and discussions were provided to the project team. Individual contact with certain providers was subsequently conducted and the participation of these members to our survey was a valuable input to understanding the market and product characteristics.

Because of the very specialised field these ERS products operate, it was difficult to receive information from providers other than these existing providers.

One additional group that contributed to the research were regulators and legal experts from the EU. Surveys were sent to this group to understand the regulatory situation affecting the marketing of such products and the answers received assisted in updating the legal and regulatory situation since the 2009 study on Equity Release schemes that was conducted by iff for the European Commission during its workplan around responsible lending leading up to its Mortgage Credit Directive proposals and subsequent law.

1.8.2 Main stakeholder conference

In the final year of the project, an international conference was organised in Hamburg, Germany to discuss the preliminary and draft findings and work with a range of stakeholders interested in the subject of pensions and the use of housing assets as a form of retirement income. The conference was held over two days, with the first day specifically concentrated on panel sessions on the various workstreams of the research. Five such sessions were organised on 11 May 2017 and interpretation was provided for the largely German speaking audience. Discussions and presentations were made in English.

Speakers of the sessions included members of the project team as well as representatives of the provider and consumer side as well as additional experts or academics. Providers from Germany, Ireland and Sweden made valuable contributions to the debate and were available to discuss questions from the audience. The attendance at the conference was made up of over 200 persons from a range of backgrounds, consumer organisations, providers, lawyers, policy makers, journalists and researchers. A range of workshops and pension and other financial services related topics were also organised around the subject of residential property to ensure a wide attendance and mix of participants. The majority of participants were not familiar with ERS and the concepts of using housing assets for pension provision.

To stimulate discussion as well as to train the audience on the subject, presentations were prepared for three panel discussions organised. Most speakers prepared introductions and based their intervention on discussion of questions led by the moderator. Some speakers however did prepare slides for the audience and fellow speakers. The first panel included 6 presentations of total of 53 slides (Marchetti (5), Clerc-Renaud (7), Hennecke (22), Dötsch (6 of 16), French (7), Thiele (6)). There was little room for discussion with the audience. The second panel included 3 presentations of 35 slides (Hoekstra (12), Waterson (5), Friedrich (18)): The third panel included 3 presentations of 23 slides (McKillop (12), Maher (8), Reifner (3))

The conference provided a platform for presenting preliminary findings from research covering retirement provision, housing, demographics and policy options, primarily

focusing on the six countries in the EU. It was organised by iff and was attended by all partners of the research project (Waterford Institute of Technology, Queen's University Belfast, University of Rostock, Technological University Delft, Andr ssy University-Budapest and LUMSA-Rome). The conference involved academics, advocates and practitioners familiar with the project domains and also included representatives of commercial firms with experience of the market in several countries. The presentations dealt with issues of market attractiveness, potential household appetite for solutions, suitable consumer protection, conceptual awareness among all stakeholders, product development, provision of capital, market evolution, and regulatory matters. Contrasting perspectives were offered and cultural preferences were highlighted with respect to the provision of housing (renting/owning), mobility (staying/moving), equity release (selling/leveraging), and inter-generational disposals (lifetime, on death, in full, partial, not at all). Participants recognised the changing nature of housing needs over a lifetime, the nature and location of housing within a community, the size of the available housing equity and the associated release mechanisms as complementary factors, all having significance in personal financial planning for retirement.

The final months of the project build on the insights shared at this conference, and further stakeholder engagement took place in the respective countries leading up to the drafting of the final report.

In the Annex is a conference report of these sessions and the issues covered.

1.8.3 Suggested product solution pathways

A significant part of the project was focused on elaborating variations of ERS as they are currently provided today as well as alternative uses of residential property for retirement incomes such as tenancy based solutions. The reason for concentrated effort on these alternative avenues was a result of the limited reach and policy impact the existing ERS are expected to deliver to help solve the pension gap across the EU. By especially focusing on the lower income groups, this activity and workstream will open greater possibilities for complementing the retirement incomes of these groups of retirees whether through new avenues or through the enhanced features of the existing ERS product offerings.

1.8.4 Dissemination

National communication took place at the start and end of the project. Partners had regular news about the project on their websites and some media efforts also promoted the European Commission's initiative and funded Action. Table 4 shows some of the main dissemination activities carried out by the project team.

Table 4: Main project dissemination activities undertaken

Date	Meeting/subject/event/publication	Partners involved
August 2016	EPPARG Meeting, London	iff, WIT, QUB
May 2016	Meeting with Association of Private Bausparkassen	iff
16 May 2017	UROS Department of Economics research seminar, Rostock	UROS, WIT
23 June 2017	AUB Hungarian Stakeholder Meeting, Budapest	AUB, WIT
5 July 2017	Workshop at the Rostock Center for Research on Demographic Change, Rostock	UROS
January 2018	Forthcoming project presentation to the Pension Policy Research group, Dublin	WIT
December 2017	Report on the Hungarian Stakeholder Meeting will be published in the December 2017 edition of the Financial and Economic Review of Hungary (Scientific journal of the Magyar Nemzeti Bank).	AUB

Spring 2018	Publication of a book by Springer: <i>Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options</i>	AUB (eds.) and all
September 2015	Project presentation at the AUB website: https://www.andrassyuni.eu/projekt/integrating-residential-property-with-private-pensions-provision-in-the-eu.html	AUB
April 2016	Article at the AUB website about partner meeting in April 2016: https://www.andrassyuni.eu/nachrichten/wohneigentum-und-private-altersvorsorge.html	AUB
November 2016	Article at the AUB website about partner meeting in November 2016: https://www.andrassyuni.eu/nachrichten/entwicklung-eines-innovativen-altersvorsorgeproduktes-im-auftrag-der-europaischen-kommission.html	AUB
June 2017	Article at the AUB website about the stakeholder conference held in Budapest in June 2017: https://www.andrassyuni.eu/nachrichten/the-future-of-old-age-provision-demographic-change-financial-services-and-residential-property.html	AUB
November 2017	On November 14, 2017, Joris Hoekstra gave a presentation on the preliminary findings of the project. This presentation was part of a larger housing market conference organized by TU Delft. The audience consisted of about 30 housing and finance professionals.	TUD
Autumn 2017	As a Spin-off of the project, 2 articles on housing equity release appeared in major Dutch newspapers: https://www.ad.nl/economie/woningbezitters-klem-door-onbruikbare-overwaarde~a9e5dfa7/ https://www.telegraaf.nl/nieuws/1364847/van-stenen-kun-je-niet-eten	TUD
Autumn 2017	At the end of 2017, Marja Elsinga and Joris Hoekstra were interviewed on housing equity release by the Dutch umbrella organization for banks (NVB). This interview is published on the website of the NVB: https://www.nvb.nl/bank-wereld-online/3867/standaard-verantwoord-verzilveren-nodig-voor-verzilveringsproblematiek.html	TUD

Note: Other efforts by the research team to disseminate its work from the Action were also undertaken but did not result in actual paper and conference presentations such as the extended abstract applied to the Call for papers in April 2017: 5th Luxembourg Workshop on Household Finance and Consumption (topics: Financing retirement with ageing populations; Housing, financing, mortgage markets).

Educational events have been in the form of the third focus group and meetings as well as dissemination of the findings in some member states of the project such as Germany where product literacy was enhanced and contributed to addressing an acknowledged lack of familiarity with residential property based retirement options from both the wider public and the non-profit entities advising consumers.

In Ireland, electronic copies of the report from the 2017 Hamburg conference were circulated to the five largest retail banking and pensions suppliers in the Irish market, the Department of Social Protection, the Department of Finance, the Central Bank of Ireland, The Pensions Authority, the Consumers Association of Ireland, Insurance Ireland, the Irish Banking & Payments Federation, Residential Tenancies Board, the Economic and Social

Research Institute, Seniors Money, Probus Ireland, Age Action Ireland, Age Active Ireland, Third Age Ireland, and the National Federation of Pensioners Associations.

1.8.5 Website

Development of the content and layout were undertaken at the end of the project. Drafts were discussed during the project and realised in the final months in 2017. The website (<http://equity-release.eu/>) is currently available in English, German and Italian.

The purpose of the website was to make the findings of the project available to a wider audience of interested parties including stakeholders currently and potentially interested in the subject of pensions and the use of residential property for providing supplementary incomes during retirement. The website contains a number of the papers produced from the project and the final report of the project in English. Information on the English language website allows a broad international dissemination and widespread access of the results.

Furthermore, it informs consumers about the topic. The webpage provides a set of basic information, a quiz on financial education and a set of flyers in the five languages. The website is built such that additional languages and information can easily be added. The partners plan to further add to the information presented here, e.g., a follow-up project for Germany has begun in December 2017.

1.8.6 Consumer and stakeholder awareness through leaflets and quiz about ERS

With the insights gathered through the Action about the products and consumer attitudes and safeguards that such ERS solutions require, two-page leaflets were developed to promote an easy understanding of these products and the aspects that consumers need to be aware of.

The main form these awareness documents have taken are as information leaflets designed primarily for consumers. The objective was to produce a leaflet over two pages that convey the basic information to consumers about the two various forms of ERS available to them and to highlight the main safety features of these products based on the findings obtained from the research. They were developed in English and were translated into Italian, German and Dutch. An information leaflet was also produced in Hungarian, although there is currently a lack of both providers and consumers in the Hungarian market – which is confirmed by several focus group discussions and stakeholder interviews.

See Annex Section 4 for examples of these leaflets.

The research team has involved the consumer organisation of the six countries in its data collection and dissemination work and consumer views were received by the focus groups held as part of the dedicated workstream focused on consumers, as well.

The dissemination events organised in all 6 countries also served to reach consumers. However, no detailed quantitative consumer surveys were conducted due to lack of representativeness of such answers in markets where the ERS awareness was very low. The focus on collecting qualitative answers from consumers through the focus groups was deemed to be a more useful exercise and extra resources were used for such purposes. In addition, the website was designed to provide and collect answers aimed at consumers through a basic information quiz.

2 Equity Release schemes (ERS) as an instrument to provide old age security

2.1 Forms of housing equity withdrawal and definition of ERS

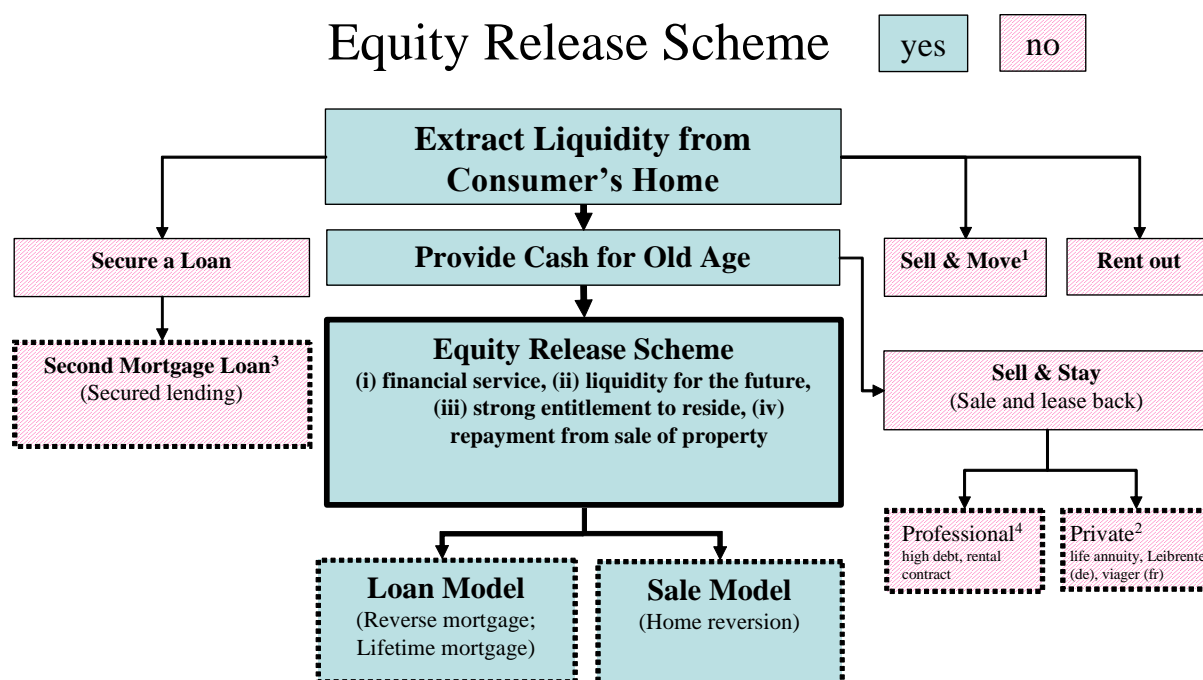
If a housing asset exists, this asset not only provides a form of financial wealth but it also provides a housing service. In the case an individual or a household owns residential property in which they live, they enjoy a security of tenure that comes with ownership. While homeownership allows to save on paying market rents, it does also come with costs such as taxes and property maintenance and upkeep in order for it to continue to provide the level of service (shelter and more) over time. When a household decides it needs more cash and the incomes in retirement (from pensions or part-time work beyond the retirement age) are insufficient, they have a number of options to release the equity they have in their home. The most obvious option available is the option to sell the property and move to another one (though the feasibility and attractiveness of this option will depend on market exchange values). This could involve subsequently buying a less expensive property (smaller, or somewhere else: trading down) and remaining a homeowner or deciding to become a tenant and to pay the rent and cover living expenses from the proceeds of the sale over time together with one's pension income. Another option would be to generate income from the property by renting out part of it to a third party (this option will depend on the feasibility of separating the property and one's acceptance of sharing one's dwelling)

Alternatives also include getting a loan on the property to generate cash now but this will have a negative cash flow implication when the loan has to be repaid so may not be an ideal or even possible option (as banks are increasingly required not to lend without assessing a strong repayment capacity of the borrower). All these forms of equity extraction do not however secure the household's desire to stay in the property they live in. This distinction in ways to extract equity other than through an equity release scheme were explained, analysed and quantified in a Paper that is summarised in the Annex to this report under the Paper by Ms Tripti Sharma "Analysis of Housing Equity Withdrawal by its Forms". Equity release schemes (ERS) are therefore specific schemes that confer the right to remain in the property with the liquidation of the housing equity. For this research, we have chosen to use the definition by Reifner et al 2009 in their study for the European Commission.

Wide and narrow definition focused on pension adequacy throughout old age duration:

Equity release schemes (ERS) are defined differently in the literature (Ong et al. 2013). In this project, following Reifner et al. (2009a: 1) the term "equity release scheme" describes "both the process and the products that allow homeowners to secure substantial lump sums or regular income payments by realising part of the value of their homes, while being able to continue to live in it." Furthermore, "ERS must ...: (1) be a financial service; (2) be a source of liquidity for the future [lump sum or regular payments]; (3) contain a strong entitlement to remain in occupation of the property; and (4) rely solely on the sale of the property for repayment/payment of the funds released to be used as a retirement pension." (Reifner et al., 2009a: I). These four criteria are shown in figure 1 in order to determine whether the products that were found can be called ERS, and more specifically, can be designated either the so-called Loan Model ERS (reverse mortgage, lifetime mortgage) or the Sales Model ERS (home reversion).

Figure 2: Working definition of ERS



Footnotes: Four elements that do NOT constitute an Equity Release Scheme: NOT Keeping the right to live in one's home¹, NOT concluding a financial service contract², NOT leading to an improvement in medium-term cash flow³, NOT maintaining long-term housing security⁴.

Source: Reifner et al. (2009a: I)

As a general rule, there is a precondition of not having an existing mortgage loan (with some exceptions) on the home (CCPC, 2016).

2.2 Two Basic forms of ERS: Loan Model and Sale Model

Equity release schemes (ERS) are primarily of two forms – loan model ERS and sale model ERS. The loan model ERS, which is also known as lifetime mortgage, enables homeowners to borrow money against the value of their property, without losing their ownership. In this form, the amount lent is recovered through the sale proceeds of the house. The sale model involves immediate selling of the house. Homeowners convert their house to cash by selling a part of or the entire property to the ERS provider, while retaining their rights to live in the house. Sale model ERS are also referred to as home reversion schemes (Reifner et al., 2009a).

2.2.1 Sale Model ERS - Home Reversion Schemes

Home Reversion schemes permit consumers to sell part of their home for a fixed price, which is usually at a greater discount than the actual value of the share of the home. Consumers do not borrow against the value of their homes, but are actually transferring (selling) part of their home and as such, they are not obliged to make any repayments. The borrowers continue to live in those homes for the rest of their lives and can use the cash for their household expenditure. With Home Reversion schemes, borrowers are usually provided with the money as a lump sum and are not allowed to withdraw in instalments.

In such schemes, a borrower has the option to choose between a fixed-share or variable share contract. Under the fixed share contract, the Home Reversion Company pays a lump sum to the borrower in exchange for a fixed share of the home. The percentage of the share remains fixed from the beginning to end, regardless of the life expectancy of the borrower or the value of the property in the future. Under a variable share contract, a

borrower is paid a relatively higher lump sum when the stake in the home is initially sold, but the percentage share of the property owned by a home reversion firm automatically increases each year without the borrower receiving any more money. Therefore, this reduces a borrower's share in the property with the passage of time. Thus, the longer the borrower's life, the less of the property, he/she will own. Due to the higher longevity rate (by approximately 5 years) for a single or widowed woman, she would receive a lower lump sum than a single or widowed man (CCPC, 2016).

Table 1 illustrates the advantages and drawbacks of home reversion schemes. One of the biggest drawbacks of such a scheme is that a borrower cannot change or exit from a home reversion contract on the grounds that the home has already been sold. However, borrowers may have an option to negotiate with the Home Reversion Company to buy back the share which was sold earlier, which allows the borrower to sell the home in the open marketplace. This would provide a borrower with a choice to cash in the value from one's ownership in the home. When the borrower dies, the similar option of buy back may be given to the beneficiary (ies) (CCPC, 2016). Like in the UK Home reversion products are less popular in Ireland due to the outright sale of a part of a home which may not seem attractive to borrowers.

Figure 3: Advantages and drawbacks of Home Reversion Schemes (Sale Model ERS)

Advantages	Drawbacks
A borrower can raise some cash by selling a stake in the home and can still continue to live in it without paying any rent.	The money, which is lent to a borrower will be considerably less than the market rate of the share in the property. The difference between the market value and the lump sum is the true cost of this product. If one does not live long, it may prove to be very expensive.
If property prices fall, a borrower will gain due to having received a cash based on the higher prices before a fall.	A borrower will not gain from the rise in the property prices. The home reversion company will get benefits from the rise in the value of its share.
It is not treated as a loan. Therefore, no repayments are required and no interest payments are made.	A borrower cannot use the home as a security again to get a further loan without the consent of the home reversion firm (co-owner).

Source: CCPC (2016)

2.2.2 Loan Model ERS: Lifetime/reverse mortgages

In a Lifetime Mortgage, a borrower continues to be the legal owner of the property, unlike the Home Reversion scheme. However, the lender takes a 'first charge' on it, thus securing the loan against the value of the property. There are two variations of Lifetime Mortgages. These are Roll-up Mortgages and Interest-only mortgages.

Roll-up mortgages:

With a roll-up mortgage, a borrower makes no repayments and still continues to own as well as live in the home. Each month, a borrower is charged an accrued interest on the borrowed funds as there is no regular repayment. This results in more money being owed by a borrower with the passage of time. The loan is usually paid from the proceeds of the home, when it is eventually sold – following one's death or when one moves out. However, there is a possibility that one may end up being in a negative equity at the time of selling a house as property prices may not hold pace with an addition in the outstanding loan amount (CCPC, 2016). To eliminate this risk for the consumer, providers may provide a no negative equity guarantee.

Interest-only mortgages:

With the interest-only lifetime mortgages, a borrower pays interest on the loan each month at a fixed or variable rate. Therefore, the principal amount does not change over the term of the mortgage and the repayment may appear manageable. Nonetheless, the variable interest rate might change an amount of monthly interest repayments. Some lifetime mortgages come with a condition of repaying the borrowed money within 30 years. The borrower has an option to repay a lifetime mortgage at any time from any funding source (CCPC, 2016). Table 2 illustrates the advantages and drawbacks of lifetime mortgages.

Figure 4: Advantages and disadvantages of lifetime mortgages (Loan Model ERS)

Advantages	Drawbacks
A borrower can raise cash through a lifetime mortgage and continue to own and live in the home.	With a roll-up mortgage, a borrower makes no repayments and as a result of which, the interest builds up swiftly. The longer the life of a borrower, the higher the probability that the amount he/she owes could come close to the value of the home.
A borrower gets the benefits from any increase in the property prices.	A large amount may have to be repaid when the home is sold, due to the interest built up during a borrower's lifetime. Hence, less (or no) money would be left over for one's long term care or to pass on to the heirs.
Firms providing these products must comply with the consumer credit law. Providers and advisors must also follow the requirements of the Consumer Protection Code, which frames conduct of business regulation.	If interest rates rise, the interest on a variable-rate roll-up mortgage would increase. This would further increase an outstanding amount. This will also affect a borrower's monthly repayment figure which can affect his/her repayment capability.

Source: CCPC (2016)

3 Methodology of the Research

This project has worked with the evidence it has collected through the research. These include:

- Country profiles on pensions, housing and mortgages elaborated and ERS market potential (see Chapter 4 Market conditions, Chapter 5 Fiscal incentives and other public policy options for private pensions and homeownership: cross-sectional case study and Eckardt et al. (2018))
- Policy framework in the 6 Member States (DE, HU, IE, IT, NL, UK) (see Chapter 5 Fiscal incentives and other public policy options for private pensions and homeownership: cross-sectional case study) and life cycle patterns for the EU-28 (see Eckardt & Okruch 2017)
- Preferences from consumers from focus groups held (see Chapter 6 Perspectives from consumers)
- Surveys from ERS providers (Chapter 7 Providers and products).
- Stakeholder interaction through events and interviews.

3.1 Data used

Data collection of statistics was especially used for Workstream 1 and Workstream 2. In Workstream 1 an overall picture for the EU-28 with regards to pension adequacy and the propensity to use housing wealth was collected from available data sources. The data used include Eurostat and OECD official statistics, data from the European Mortgage Federation and cross-country survey data such as the Eurosystem Household Finance and Consumption Survey (HFCS) and the European Union Statistics on Income and Living Conditions (EU-SILC). In Workstream 2 EU-SILC 2014 microdata were used to estimate life cycle patterns for different income components to provide a first approximation for the potential of ERS across the EU-28. In addition, Workstream 2 used aggregated EU-SILC data for an overview of old-age poverty and homeownership in the EU-28 to evaluate the need for ERS. In addition to data from Eurostat and OECD, the six country case studies in Workstream 2 also used national data on private pensions, mortgages and the housing market.

A problem revealed in most of the case studies is the lack of reliable quantitative information regarding ERS. For example, in Germany or Hungary there are no official statistics available and there is in almost all cases only a very small literature concerning the products and the respective policies.

3.2 Stakeholders meetings and consumer focus groups

The focus groups were carried out on the basis of an interview guide that was developed by TUD. Two separate interview guides were provided: one for the first two focus groups and one for the last focus group. For each focus group meeting, an English summary of 10 to 15 pages was produced by the responsible national team. All these summaries are published in the annexes of this report. Based on the focus group summaries, the TU Delft team has carried out an international comparative analysis. The results of this analysis are reported in chapter 6 of this report. Stakeholder meetings have also been organized in each of the six consortium countries. The format for these meetings was designed by the national teams themselves. The results of the stakeholder meetings are largely reported in Section 7.5 (Risks for providers) of this report.

In addition to the focus group meetings, additional stakeholder events were organised in all of the 6 countries. For example, in Hungary, a stakeholder meeting was organised and held by AUB on 23 June, 2017 in Budapest. The aim of the meeting was to discuss Equity Release Schemes (ERS) and their future possibilities, with a special focus on Hungary. At the meeting, the perspectives of providers, customers, regulatory and supervisory bodies and the academic sector were presented, and thus the topic was discussed from the point

of view of nearly all stakeholders involved. Despite the efforts of the organizers, however, representatives of the life insurance sector, which – according to the current Hungarian legislation – may be the future potential providers of ERS products in the Hungarian market, were absent. All in all, participating stakeholders agreed that despite the actual situation, the ERS market could evolve over time in Hungary.

3.3 Empirical survey

Empirical data was collected by way of expert surveys and interviews e.g., with national regulators, providers and consumer organisations. A list of stakeholders consulted during the project is provided in the Annex.

Details about the supply side of the market primarily came from the survey of providers already known to be marketing such products. For the provider survey, the participation of the European Pension Property Asset Release Group (EPPARG) and the UK Equity Release Council (ERC) helped get a good response rate from existing ERS providers in the EU and the UK.

To understand the potential for providers to enter the market, a survey was prepared addressed to the largest five banks and insurers in the 6 member states. These were sent in 2017.

From experience, because of the limited experience with ERS, no survey was planned with consumer organisations, the research team relied on individual contact and conversations and meetings instead. The results of these have been integrated in the final report.

3.3.1 Individuals and organisations interviewed (all)

The project was heavily dependent on stakeholder engagement both in collecting and also disseminating our findings as we progressed and at the end of the Action. The project partners from the 6 countries of study have undertaken much consultation with the various stakeholder groups. The table below shows the types of stakeholders reached and involved. A list of the stakeholders is provided in the annex.

Figure 5: Number and type of stakeholders interviewed

Number of institutions involved by stakeholder group Member State	Providers, provider associations, intermediaries	Public authorities and regulators	Consumer organisations, other associations and others
Germany	9	0*	5
Italy	4	2	7
UK	10	3	4
Ireland	6	2	5
The Netherlands	8	2	2
Hungary	5	1	5

Note: *Further stakeholders were contacted but only those that provided views are included in this table.

In Germany, 14 stakeholders were involved in the project. 11 provided interview answers. They were represented by banks (2), non-bank providers (4), intermediaries (3), and NGOs

(4). In addition, 5 providers provided survey answers. In addition, 9 organisations attended the stakeholder forum at the end of the project (See Annex for summary of the round of talks).

In Italy, 13 stakeholders were involved in the project. During the several activities organized for the stakeholders there were 1 bank as providers, 2 consumer associations, the Central Bank of Italy, 2 NGOs (ABI and ANIA, respectively the Italian Banking Association and the National Association of the Insurance Company), 1 regulator and 1 researcher/expert of ERS and finally 1 on-line financial newspaper. In addition, 4 commercial/financial banks provided answer to the providers' survey.

In the Netherlands, the stakeholders assembled in a stakeholders meeting that was organized at TU Delft. In addition to this, several individual interviews were held with providers of ERS and representatives of the ministries of housing and finance.

In Hungary 10 stakeholders were actively involved in the project by focus group discussions, stakeholder meetings or personal interviews. These include 3 (ex) ERS providers, 1 potential ERS provider association, 1 public authority as regulator, 3 potential consumer associations, 1 research institute and 1 social service provider.

3.3.2 Questionnaires

3.3.2.1 Legal experts and regulator surveys

The questionnaires were aimed at collecting and updating the regulatory information concerning ERS across the EU. It was addressed to regulators in all EU Member States as well as ministries and some legal experts.

A 6-page survey was sent to the regulators in all of the EU-28 containing 11 questions. Since a large minority had already contributed answers to a previous survey as part of the European Commission Study on Equity Release schemes in 2008, in these cases the previous answers received were also sent to them with a request to update the answers provided at the time. The questionnaire used in 2008 by iff was considerably longer and had contained considerably more opinion based questions that were not included in our survey for this project. The objective was to keep the set of questions as short as possible focusing on the regulatory details in order to limit the time required by the regulator respondents to provide answers. Since most EU member states do not have ERS markets, and because the main Member States where products exist were covered in more detail by the partners of the research during their national outreach, the questionnaire asked these additional EU regulators to update the legal situation regard ERS in their country. The questionnaire also included an open field for them to provide their initial feedback on 3 additional models that could serve similar functions to ERS in terms of integrating housing and pension provision. Short description of the context for these alternative solutions as well as a basic outline of the solutions were provided in the last two pages of the questionnaire. Regulators were thus invited to comment on whether they thought the models would be legally feasible in their country.

The questions covered: transposition of the Mortgage Credit Directive and its applicability to Loan Model ERS, licensing requirements for ERS providers and intermediaries, supervisory control of products or providers, specific laws and regulations affecting the different ERS models and whether different rules could be seen to hinder the marketing of these products. The survey also asked for a list of the ERS providers (both Loan Model and Sale Model) and intermediaries active in their area of jurisdiction. In addition, because the regulators were approached later in the project, they were presented with the basic descriptions of variations of the ERS and three alternative models combining homeownership and private old age pension schemes alternatives to gather their opinion on legal and regulatory issues surrounding them and whether there were any obvious barriers to their exploration. The alternative models were: Save to equity (saving & loan); Rent your own flat (shared home-ownership); PensionTenancy (Combined rent/savings) (See the Annex for the questionnaire used).

The questionnaire sent to legal experts was almost identical to that for regulators. Those experts that had been part of the research in 2008 were contacted again and additional persons were solicited. These persons were asked to update our understanding of the legal and regulatory situation regarding Equity Release Schemes (ERS) in the EU. We asked them questions about two areas: The first set of questions are about ERS as we know them today and how both Sale Model and Loan Model ERS are regulated and whether there are either weaknesses or examples of better regulatory practices in their country. We also asked them for their views on product suggestions as described above for regulators. Because the project aims to explore other viable models of equity release (liquidation of real estate values) for old age pension schemes, we asked them in the second part to comment from a legal point of view the legal problems they could see in the three models proposed and whether they saw problems with implementation of these in principle (feasibility of these and any relevant legal issues). Answers were collected by iff and Prof. Elena Carillo-Perez assisted the team with a summary of the key legal issues raised by the answers and existing literature. The analysis of the regulatory situation also used research by the partners as well as the existing body of knowledge acquired by iff for the European Commission study in 2008.

We have contacted over 150 persons/email address recipients from 81 institutions across the EU-28. On average, there were almost 3 relevant institutions per EU Member State to whom the questionnaire was addressed. This was the financial regulator and the central bank and in some countries the ministries in charge of financial affairs as indicated by the list of national regulators and supervisors on the EBA and EIOPA websites (the competent authorities). They were contacted with the survey in July and August 2017.

3.3.2.2 Provider surveys

In addition to the interviews, a longer survey was conducted with both existing ERS providers as well as a shorter one for potential providers.

ERS Provider survey

This survey contained a set of questions over 8 pages. The final version used after testing contained primarily closed questions with general comment fields rather than open questions which proved to be too time consuming for respondents to complete. Drafts of the survey were circulated to the team, to the EPPARG secretariat and was reduced as much as possible to allow for the most pertinent questions. The questions were grouped under the following sections:

1. Your product offering (15 items)
2. Eligibility and restrictions (11 items)
3. Payment and guarantees (7 items)
4. Termination, default and sale (6 items)
5. Risks (6 items)
6. Typical client characteristics (6 items)
7. Distribution and advice (5 items)
8. Outlook of the ERS market (5 items)

For providers of multiple products, we asked them to complete a separate questionnaire for each of their products starting with their most dominant one. The survey answers were used to understand the provider perspective and to collect information on the size of their business and characteristics of their products. It informed the results of market and product details as part of Workstream 4. In addition, it also helped to provide insights into the modelling work involved in workstream 5. The survey answers were followed up by calls where the need arose but these were primarily undertaken for the providers of the 6 countries of focus in this project.

The survey work was administered by the partner iff. It was sent to almost 40 providers and dissemination was helped by the EPPARG and the ERC in the UK. The survey period was in the summer 2017.

Potential provider survey

The 4-page survey sought to collect information from potential providers of ERS on their perception of this business field and to understand why they have not entered the market so far. It contained 16 questions the majority concerning how existing barriers to the development of ERS in their country and across Europe could be reduced.

The initial questions concerned their past or potential future intentions to market ERS (Q2-3), whether an EU appeal would make it more likely for them (Q4), whether they would seek partners should they decide to launch such a product (Q5), followed by questions to collect their views on a mandatory inclusion of a no negative equity guarantee (Q6), relative risks for them as providers (Q7) and on biggest challenges, factors, process stages and barriers limiting market entry (Q8-9, Q11, Q13). The final set of questions asked for their assessment of the ERS market demand, the drivers of ERS market development (Q10, Q12) and whether they would consider a product solution which involved the bundling of a long-term tenancy with a private pension (Q14). The last two questions concerned the effect of state intervention and other ways to help promote the up-take of ERS by consumers (Q15-16).

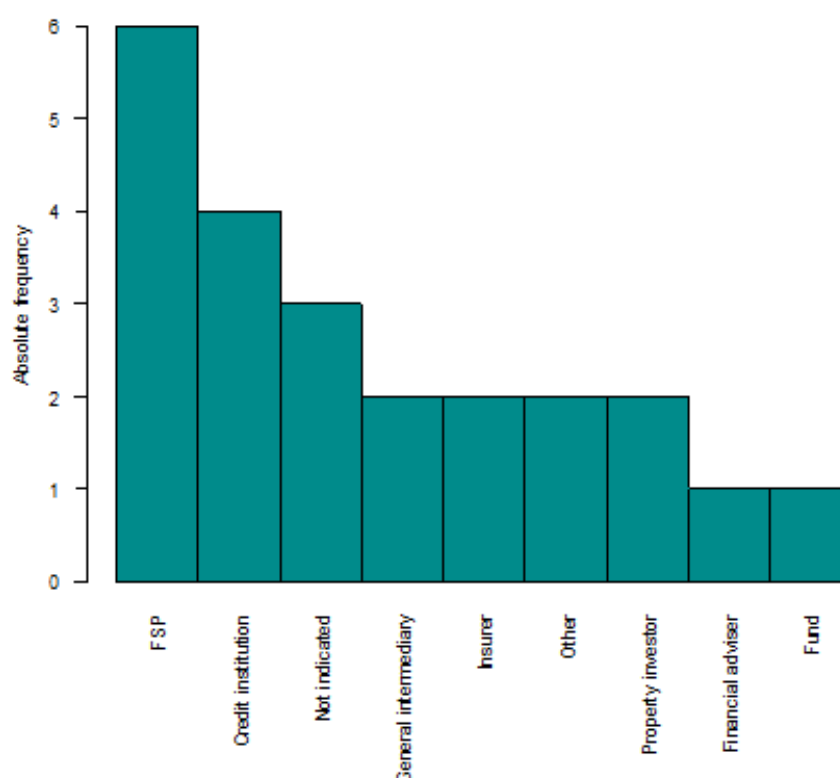
3.3.3 Participation and general overview of responses

Overall, 23 institutions participated in the provider survey. Comments received from the providers of ERS:

“As a new entrant to the lifetime mortgage market, the details of our proposition are sensitive and as such I do not wish to disclose the details to any third-party agency, including research papers. If this request arrived post our full launch later this year then I would be more than happy to assist.” (UK ERS provider)

The largest group of the survey are the financial service providers (FSP), see Figure 6.

Figure 6. Types of firms (Provider survey)



As shown in Table 5, the majority of FSPs are product manufacturers, the other their nature of involvement being adviser and other. Credit institutions engage half in the product manufacturing, half in other nature of involvement.

Table 5: Nature of involvement by the type of ERS provider firm (provider survey)

Type	Product manufacturer	Property buyer	Intermediary	Adviser	Other
Credit institution	2	0	0	0	2
Financial adviser	1	0	0	1	0
FSP	5	0	0	1	1
Fund	1	1	0	1	0
General intermediary	0	0	2	2	0
Insurer	2	0	0	0	0
Not indicated	2	1	1	0	0
Other	1	1	1	1	0
Property investor	1	2	0	0	0
OVERALL	15	5	4	6	3

The most widespread nature is the product manufacturer, followed with a big interval by the adviser and property buyer.

While the responses from the **potential ERS provider survey** were very disappointing, the questionnaire also served as a guide for discussions with providers through interviews and meetings and thus still contributed to our better understanding of market potential for ERS and in our proposals of how to formulate policy suggestions that could support development and creation of solutions.

Regulator Questionnaires were received from 13 Member States (UK, Austria, Estonia, Malta, Slovakia, Germany, Czech Republic, Netherlands, Ireland, Poland, Portugal, Romania and Cyprus), 7 of these answers were from regulators, the rest from legal experts and ministries. These questionnaire answers provided additional information beyond the six core countries investigated within the scope of the project (namely, DE, HU, IE, IT, NL, UK) and beyond interactions with stakeholders regarding regulation of these products. In addition to these questionnaire replies, 8 answers from regulators were received by email without the questions answered in detail (from Finland, Denmark, Greece, Slovakia, France, Latvia).

Table 6: Overview of questionnaires received

	Survey responses received (contacted directly)
Provider survey	23 (38)
Regulator survey	13 (100)
Potential provider survey	0 (60)

4 Market conditions

Overall, the case studies reveal enormous differences regarding the development of the ERS markets. This refers to the number of suppliers in the market, the product types offered, market barriers (section 7), and fiscal incentives. As shown below (section 5), currently only two member states, Germany and the Netherlands, provide incentives for Equity Release Schemes. Germany waives income tax on payments from reverse mortgages (Case Study DE, 5). In contrast to that, in the Netherlands tax reforms have discouraged the use of mortgage equity release schemes (limitation of mortgage interest deductions) and encouraged the sale of property (transaction tax temporarily abolished and afterwards reduced in 2012 since 2001 (Ong et al. 2013, 49-50; Case Study NL, 15).

Against the background of the varying legal, social and economic preconditions it is not possible to transfer “best practices” from one country to another. We also observe some rather contradictory developments, which complicate a consistent market assessment the more. For example, the comparatively high ratio of residential property in Italy and Hungary could make ERS an attractive alternative in a longer-term perspective. Recent incentives for building up residential property in Hungary may stimulate this potential in the long term. The same may hold for the measures taken recently in the United Kingdom and Germany, too. In both Italy and Hungary cultural preconditions may impede the development of a profitable market.

As a first consequence, we consider some more general aspects of the transnational potential for ERS. The demographic development will definitely weaken the current pension systems in the long term. This will be a driving force to find alternatives for old-age provision in each of the countries and may generate a development from currently “familial markets” towards a higher degree of commodification of residential property. It is nevertheless difficult to determine the critical point, when wider parts of the population will fully perceive the problem of old-age security and turn towards different solutions.

Furthermore, the country studies reveal the important fact that dynamic urban developments lead to or reinforce imbalances among the demand side in all member states. This may complicate the development of tailor-made products for each country and its particular conditions, but may also constitute regional niches for ERS products. The question remains, however, whether and in which manner providers of ERS programs will be able to develop appropriate business models.

4.1 Market conditions across countries

Against the background of demographic change and the growing problems of traditional old-age security systems, the need for additional private savings for old-age is obvious. However, this might be in conflict with private savings for homeownership. One way of mitigating this potential conflict could be to release the liquidity of the wealth incorporated in one’s housing assets during old-age by so-called Equity Release Schemes. In this way, one could already draw on the equity without having to sell the house – as it would be the traditional way. To assess the potential of such innovative products to provide additional income in old-age, this cross-sectional study analyses the market conditions for ERS in the EU and summarizes the insights of six country studies (Germany, Hungary, Ireland, Italy, the Netherlands, and the United Kingdom).

As Table 7 shows there are huge disparities among the six countries we focus on. This holds not only in relation to population size and population growth, but also in respect to the current proportion of elderly people as well as to income provided by public pension schemes and per capita private pension assets. While Germany, the United Kingdom and Italy belong to the big member states, the Netherlands, Hungary and Ireland are rather small in size. However, population is projected to decline by about 15% in Hungary and 11% in Germany until 2050, while it is projected to grow by 21% in the United Kingdom and by 19% in Ireland. The old-age dependency ratio lies between 26% and 33% for all countries covered, with the exception of Ireland (19%). Currently, nearly a fifth of the population in Germany and Italy is of the age of 65 years or above, with only 13% in

Ireland. In contrast to that the net replacement rates on mandatory pension programs are the lowest in the United Kingdom, Ireland and Germany, while the highest are to be found in the Netherlands and Hungary. The ranking is similar in respect to net replacement rates on wages. Again, a different picture develops when it comes to home-ownership rates, with the highest in Hungary and the lowest in Germany.

Table 7: Basic country statistics and information (2014 values, Min and Max in bold)

	Germany	Hungary	Ireland	Italy	Nether-lands	United Kingdom	EU Median	Source
Population (million)	80.92	9.84	4.61	61.2	16.92	64.09	7.90	OECD
Population growth (%; 2014-2050)	-10.87	-15.51	18.93	3.47	2.51	20.91	-0.06	OECD
Old age dependency ratio (%)	32.20	25.80	19.20	32.90	26.40	26.90	27.25	Eurostat
65+ (% of total population)	21.38	17.65	12.72	21.23	17.51	17.81	18.60	OECD
Net replacement rates on mandatory pension programs (%) (1)	50.00	89.60	42.20	79.70	95.70	38.30	63.70	OECD
Replacement rate of public pension in relation to wages (%)	37.50	58.70	34.70	69.50	90.50	21.60	55.80	OECD
Per capita private pension fund assets (EUR)	2,630	467	30,148	2,426	72,210	39,933	2,426	OECD
Owner occupation (% of households, latest)	52.5	89.1	69.9	73.2	67.0	64.8	74.5	Eurostat

Note: (1) "The net replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement." OECD, <https://data.oecd.org/pension/net-pension-replacement-rates.htm>

Source: Own compilation according to OECD and Eurostat databases.

The actual and potential market volume of equity release schemes depends, first, on market factors of demand and supply, respectively need and feasibility, and secondly, on state interventions. The fiscal incentives and other public policy options for private pensions and homeownership (Workstream 2) will be examined for the six EU member states under investigation below (section 5; Eckardt et al. 2018). To analyse the market conditions of ERS across EU member states (Workstream 1), we provide (1) a comparative overview based on statistical data on demographic pressure, risk of poverty, pension adequacy, homeownership and mortgage market characteristics to cluster countries according to ERS need and feasibility (Hennecke et al. 2017), and (2) a cluster analysis according to poverty risk and homeownership rate of elderly 65+ based on EU-SILC 2014 data (Megyeri 2018). The main results will be summarized in the following.

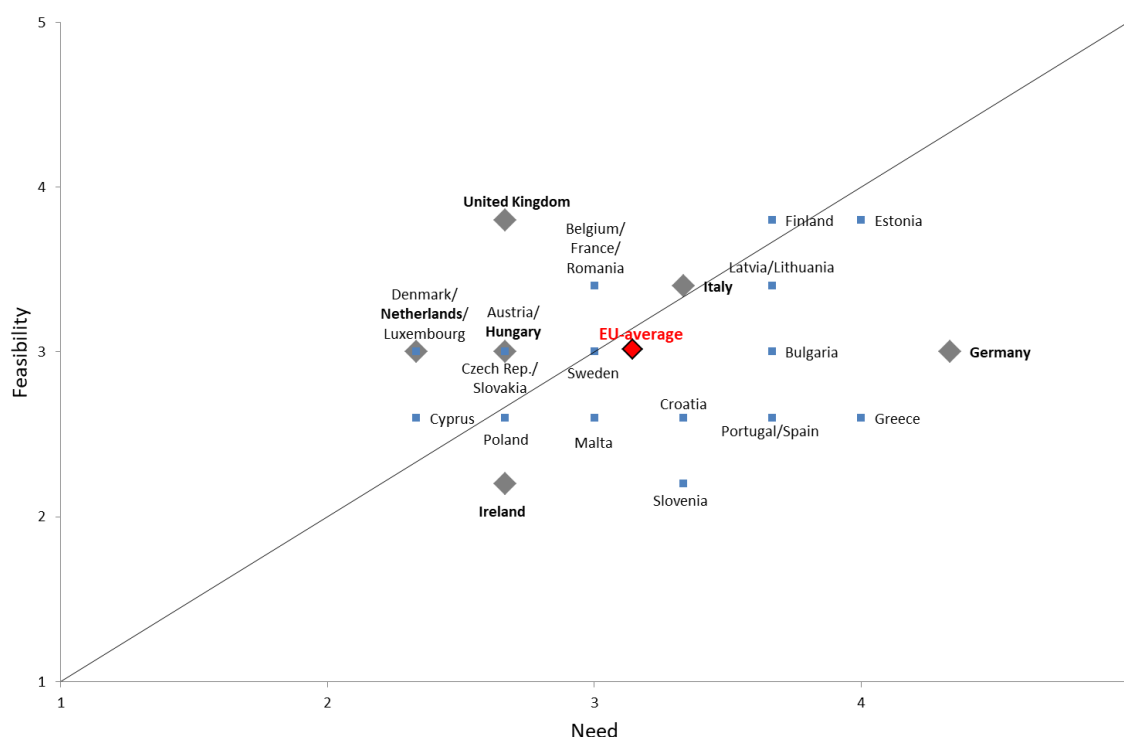
Hennecke et al. (2017) examine need and feasibility of ERS and the extent to which both match. As indicators of the need for ERS, they use life expectancy, share of elderly (65+), age dependency ratio, at risk of poverty rate for elderly, replacement rate, and per capita private pension assets. Demographic pressure increases with life expectancy, share of elderly, and the age dependency ratio, measured by persons over 65 in percent of working age population (15-64). The higher the at-risk-of-poverty for the elderly, the higher is the need for an ERS market, as these financial products could help to avoid that individuals fall into poverty during retirement because of the low level of pensions. The need to

supplement the actual (mandatory and private) pension schemes with ERS depends on the adequacy of the current pension system, measured by the net replacement rate (defined as the individual net pension entitlement for mandatory pension programs divided by net pre-retirement earnings), and the amount of private pension assets per capita.

Indicators of ERS feasibility are homeownership rate, mortgage debt at pension age, residence turnover rate, household size, and volatility of house price to income ratio. The higher the homeownership rate, i.e. the percentage of population owning their residence, the higher is the potential to release home equity. As this potential is limited by outstanding mortgages, higher mortgage debt at pension age reduces ERS feasibility. The residence turnover rate, i.e. the percentage of homeowners that sold their residence in a given year, indicates how fast reverse mortgage providers are able to sell their new property or how liquid are real estate markets. High real estate market liquidity is a favourable condition for ERS feasibility. Household size is used as a measure for the bequest motive. Larger households are more likely to pass on the property to the next generation instead of selling it or releasing it through a reverse mortgage. Moreover, the development of ERS markets may be hampered by large house price volatility (measured by volatility of house price to income ratio), which makes it harder for ERS providers and users to calculate and predict the realisable equity.

These indicators were aggregated with equal weights to an overall indicator of need, respectively feasibility. Figure 7 illustrates the results. We find a very diverse situation in the EU member states. Out of the six member states, Netherlands and UK have favourable ERS conditions, as the feasibility appears higher or equal to the need. Hungary and Italy have (lower) medium ERS conditions, as need and feasibility approximately match. Ireland and Germany have less favourable or unfavourable conditions, because the need for ERS (or other means to complement public pensions) exceeds feasibility. This gap is largest in Germany, which thus has the most unfavourable conditions for ERS.

Figure 7: Need and feasibility for ERS compared by country (equal weights)



Note: Need and feasibility measured by aggregating equally weighted indicators based on their deviation from EU average; indicators for need: dependency ratio, life expectancy, share of elderly, at risk of poverty rate for the elderly, replacement rate, per capita pension assets; indicators for feasibility: homeownership, mortgage debt at pension age, residence turnover rate, household size, volatility of house price to income ratio.

Source: Hennecke et al. (2017)

Table 8 clusters countries according to need and feasibility index values relative to the EU average. It shows that an extrapolation to the EU as a whole is feasible as the six countries are good proxies for EU wide diversity.

Table 8: ERS need vs. feasibility: country clusters

		Need		
		low	medium	high
Feasibility	low	-	Ireland, Slovenia	-
	medium	Cyprus, Denmark, Luxembourg, Netherlands	Austria, Belgium, Croatia, Czech Republic, France, Hungary, Italy, Malta, Poland, Romania, Slovakia, Sweden	Bulgaria, Germany , Greece, Latvia, Lithuania, Portugal, Spain
	high	-	United Kingdom	Estonia, Finland

Note: Need is low/medium/high, if overall index for need is below/within/above one standard deviation from EU average. Feasibility is low/medium/high, if overall index for feasibility is below/within/above one standard deviation from EU average.

Source: Hennecke et al. (2017)

Note that these results provide a rough overview of market conditions relative to the EU average rather than absolute thresholds, which might be necessary to achieve a high market penetration. The equal weighting of all indicators does not take into account that some of them may be more important than others, and the use of country level data neglects regional differences within countries. Qualitative factors, such as cultural or personal attitudes towards ERS are not taken into account.

Megyeri (2018) uses EU-SILC 2014 data to examine the conditions of ERS to reduce old-age poverty in the EU member states. She shows that there are large variations in old-age poverty both across countries and across demographic groups or household types within countries. Among the age group 65+ vulnerability to old-age poverty is particular high for women, the old elderly (75+), persons living in single households and to a lesser extent those who do not own a home. To cluster countries according to poverty risk and homeownership rate of the age group 65+ she develops an aggregated poverty index which includes both monetary and non-monetary poverty indicators. Figure 8 overleaf illustrates the results of the cluster analysis. The EU member states are clustered into five groups, two of which (cluster 3 and 5) have medium to favourable conditions for ERS to reduce old-age poverty:

Cluster 1 (the Netherlands, Austria, Germany, Cyprus): These countries have unfavourable conditions for ERS to reduce old-age poverty, because they have both a below average homeownership rate and old-age poverty among the elderly (except Cyprus).

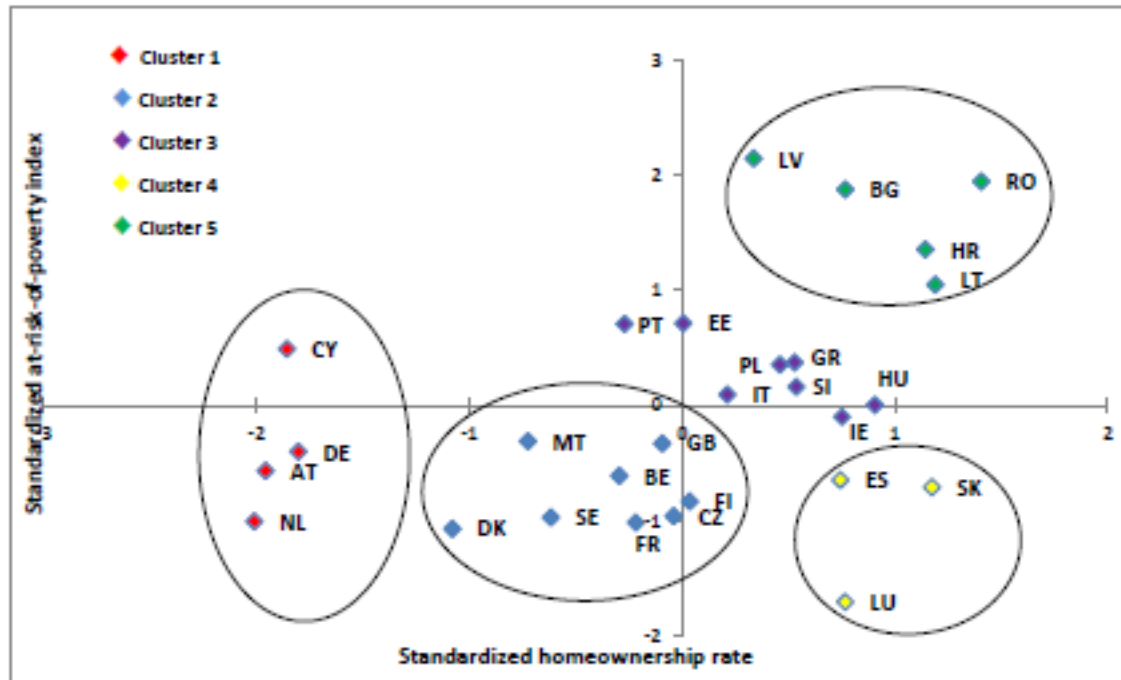
Cluster 2 (Denmark, France, Sweden, the Czech Republic, Finland, Belgium, the UK, Malta): These mostly Western and Northern European countries have higher, but still below average homeownership rates, and below average old-age poverty. Thus, relative to the EU average, they have unfavourable conditions for ERS to reduce old-age poverty.

Cluster 3 (Hungary, Ireland, Italy, Slovenia, Poland, Greece, Portugal, Estonia): These mostly Southern and Eastern European countries have slightly above average homeownership rates and old-age poverty. Therefore, they have (medium) favourable conditions for ERS to reduce old-age poverty.

Cluster 4 (Luxemburg, Spain, Slovakia): These countries have above average homeownership rates, but below average old-age poverty. While ERS feasibility is comparatively high, the need for it to reduce old-age poverty is comparatively low.

Cluster 5 (Lithuania, Croatia, Bulgaria, Romania, Latvia): These countries have both above average old-age poverty and above average homeownership rates among the elderly and therefore can be considered as target markets for ERS products.

Figure 8: Poverty risk and homeownership rate of the age group 65+: country clusters



Source: Megyeri (2018)

These results are partly in line with those of Hennecke et al. (2017), despite the different data and methods used. Both studies find that Latvia, Lithuania and Estonia have rather favourable market conditions for ERS products, that Hungary and Italy have medium conditions, but that the conditions are unfavourable in Germany. Table 9 compares the results for the six selected member states. Only in three cases they differ. The Netherlands and the UK, which have favourable ERS conditions measured by a broad index of need and feasibility (Hennecke et al. 2017), have unfavourable, respectively medium conditions measured by the potential of using homeownership for reducing old-age poverty. This can be explained by the fact that old-age poverty is below average in both countries. Ireland has unfavourable conditions for ERS in general when taking into account that the relatively large household size reduces feasibility (Hennecke et al. 2017), but medium conditions for reducing old-age poverty (Megyeri 2018).

Table 9: Conditions for ERS in the six member states

Country	ERS conditions measured by broad index of need and feasibility (Hennecke et al. 2017)	ERS conditions measured by old-age poverty and homeownership (Megyeri 2018)
Germany	Unfavourable	unfavourable
Hungary	Medium	medium
Ireland	unfavourable	medium
Italy	Medium	medium
The Netherlands	Favourable	unfavourable
The UK	favourable	medium

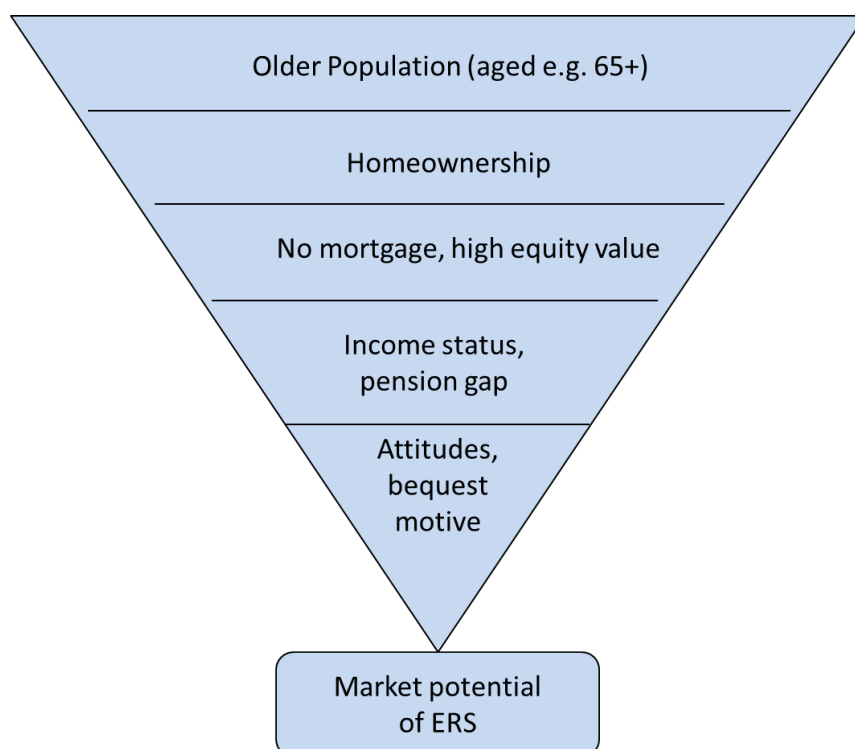
Source: own composition

Also, Moscarola et al. (2015) estimated the potential gain that could be obtained from ERS by reducing old-age poverty in the EU. Using SHARE data about housing wealth and income of 2012 for the EU15 member states except Luxembourg, they show how conversion of home wealth into an income stream could take older households (65+) out of the lowest tail of income distribution (60% of the median disposable income). The reduction of economic vulnerability would be remarkable in Spain, Belgium, Italy and France. If 100% (70%) of the house value is converted, the reduction in vulnerability of older households would be about 27% (25%) in Spain, 25% (18%) in Belgium, 16% (14%) in Italy, and 14% (11%) in France (computed using an interest rate of 4%). For the Netherlands, Austria and Sweden, the respective values are below 5% (4%), while Denmark and Germany lie in between. These results are in line with those of Hennecke et al. (2017) who find favourable (medium) conditions for ERS in Belgium, Italy and France.

Only few studies so far have estimated the market potential of ERS in EU member states.³ They use either a bottom-up or a top-down approach. The first one sizes the market by determining customer segments, based on criteria for being willing and able to purchase (e.g. wealth and income status, customers' attitudes). The second one may use the same criteria, but starts with the overall population and then filters out proportions that do not fit with these criteria (The Actuarial Profession, 2005, pp. 14). Figure 9 illustrates usual criteria used. Among the older population, only those may be willing and able to buy an ERS product, who own a property which is debt-free and has sufficient sums of equity to increase liquidity in old-age which is low because of insufficient pensions (so-called 'house rich and cash poor elderly homeowners'), and who have attitudes such as taking on debt and spending potential inheritance.

³ For studies of the market potential in the US, see e.g. Venti and Wise (1991) and Rasmussen et al. (1995). The results cannot be transferred to Europe, mainly because the US reverse mortgage market is subsidized by state guarantees which re-insurance providers against longevity and house price risks, thus enabling higher payments to customers.

Figure 9: Estimating ERS market potential



Source: own composition

Table 10 summarizes previous studies for some EU member states. The results will be explained in section 4.2 below.

Table 10: Estimations of ERS market potential in EU member states

Authors (year)	Country	Criteria	Estimated market potential
Tiffe (2007)	Germany	<ul style="list-style-type: none"> - Population aged 65+, - owning a mortgage-free home, and - having no children 	<ul style="list-style-type: none"> - 1-2 million individuals
Conrad (2007)	Germany	<ul style="list-style-type: none"> - Population aged 62+ - owning a home - without mortgages - being singles or living without children - for at least 10 years in their home, - whose income is at or below the medium income, and - whose home equity is high enough to increase their income by at least 20% using an ERS 	<ul style="list-style-type: none"> - 600,000 individuals (income at or below 1st quartile) - 1 million individuals (median income)
Wesierski (2009)	Germany	<ul style="list-style-type: none"> - Population aged 55-69, - with property values above 100,000 Euro, and - with less than average income 	<ul style="list-style-type: none"> - 1 million individuals - loan volume size at least 91 billion Euro
Maier (2011)	Germany	<ul style="list-style-type: none"> - Population aged 60+ - owning a home - with property value of at least 100,000 Euro 	<ul style="list-style-type: none"> - 5.2 million individuals as an upper limit

			of potential demand
Wiegard et al. (2015)	Germany	<ul style="list-style-type: none"> - Single-family homeowners - living in their own home - whose income is below 2,000 Euro 	<ul style="list-style-type: none"> - 2.8 million households
Pacella (2016)	Italy	<ul style="list-style-type: none"> - Home reversion current market - International benchmarks - "in field" previous Italian experiences 	<ul style="list-style-type: none"> - at least 20,000 home reversion schemes per year - loan volume size > 2bn Euro
Taskforce Verzilveren (2013)	Netherlands	<ul style="list-style-type: none"> - Homeowners - owning less than the amount of tax exempt wealth - having less than a modal gross income of 33,000 Euro 	<ul style="list-style-type: none"> - 223,000 households
The Actuarial Profession (2005)	United Kingdom	<ul style="list-style-type: none"> - Population aged 60-65, - owning a house outright, - with over £60,000 of equity, - who are not 'on target' to provide an adequate income in retirement, - who do not believe that leaving a significant inheritance is important, and - who do not say they would 'never consider borrowing against their house' 	<ul style="list-style-type: none"> - 29,784 individuals - Number of sustainable annual sales: 20,000 (e.g. 2005) – 80,000 (long-term, e.g. 2031)
Oxford Economics (2013)	United Kingdom	<ul style="list-style-type: none"> - Customer data of ERS main provider (Just Retirement) 	<ul style="list-style-type: none"> - 1,090,000 pensioner households might be lift out of poverty for a year between 2012 and 2040

Source: own composition

Table 11 and Table 12 show the results of the ERS provider questionnaire regarding the outlook of the ERS market.

Table 11: Description of the ERS market demand (provider survey)

Category	Existing loan	Existing Sale	Potential Loan	Potential Sale
0		1		1
1	6	10		3
2	2	3	2	2
3	5	1	2	6
4	5	1	6	4

5	2		10	
Don't know	1	1	1	1
Select	2	6	2	6

Note: Answers to: "How would you describe the ERS market demand? Indicate significance on a scale of 1 to 5."

The most significant characteristic of demand for the ERS is that related to the potential loans. Potential sales are the second most important characteristic with a big interval.

Table 12: Key drivers of ERS market development (provider survey)

Category	Ageing population	Increasing property prices	Pension income shortfalls	Lack of mortgage solutions	Increasing levels of debt at retirement
0				1	
1		3		1	1
2		4		1	3
3	2	8	1	7	5
4	8	4	5	5	5
5	12	3	16	7	8
Select	1	1	1	1	1

Note: Answers to: "How would you rate the following key drivers of ERS market development? Indicate significance on a scale of 1 to 5."

The two most important drivers appear to be ageing population and closely related to it, pension income shortfalls (see Table 12).

4.2 Market potential in selected member states

4.2.1 Germany

In 2009 (Reifner et al. 2009b), Germany was identified as belonging to the group of Member States with less developed Loan Model ERS markets. As shown by Hennecke et al. (2017) and Megyeri (2018) (see above section 4.1), it still has unfavourable conditions for ERS compared to other EU member states. The need for ERS is above EU average, due to above average age dependency ratio and share of 65 older, but below average replacement rate and per capita private pension assets, with risk of poverty for the elderly and life expectancy being at average. Feasibility conditions are at EU average. Comparatively low homeownership hampers the development of ERS markets, while comparatively low household size is a favourable condition for ERS in Germany. Mortgage market conditions are at EU average.

The moderate historic level of house price rises has limited the opportunity for obtaining returns on the basis of increased wealth values in the past. Many providers also judge the potential market as too restricted at the current time due to a limited relevant consumer group to market an ERS product to older people (65+) that are not inclined to bequest

their home upon their death. The less favourable conditions of low general home ownership rates and satisfactorily generous retirement pensions for the existing cohort of retiree homeowners in Germany, as well as the yet limited income poverty prevalence among current elderly homeowners all contribute to limit large scale commercial opportunities. Because of the comparatively low home ownership rates and old-age poverty, the potential gain that could be obtained from ERS by reducing old-age poverty would be low. If 100% (70%) of the house value is converted, the reduction in vulnerability of older households would be only about 6% (4%) in Germany, which is lower than in Italy, Spain, Belgium and France (Moscarola et al. (2015).

The German state provides incentives for Equity Release Schemes by waiving income tax on payments from reverse mortgages. However, subsidies for homeownership are much lower than in most other countries (Clerc-Renaud et al. 2018, Case Study DE).

The total number of existing contracts was estimated by iff in the year 2008 at less than 100 corresponding to EUR 10 million (against EUR 1,184 billion in outstanding domestic mortgages in that year). Future prospects for the market are unknown but in 2008 a market share of 7% of ordinary domestic mortgages was estimated as a reasonable target. Since 2009, the market has not expanded substantially and there is presently no significant equity release market in Germany despite new providers having appeared offering ERS on a small scale. Unlike the UK which has an industry organised around a trade association that produces statistics, in Germany, there are no official government sources for statistics and data on ERS. While a number of academic papers, reports and media articles have been written about the subject, there is still no substantial policy research into ERS (Wiegard et al. 2015, Reifner et al. 2009a, Tiffe 2007, Lang 2008, Maier 2010, Sternberger-Frey 2011, Brozio 2012, Leifels et al. 2014).

Above Table 4 shows that market potential estimations range from 600,000 to 5 million individuals, depending on the data used.

On the basis of macro data alone, Tiffe (2007) estimated the market potential in Germany in 2005 at 1-2 million individuals, who are older than 65 years, own a home without mortgage and do not have a bequest motive because they do not have children. Similarly, Wesierski (2009) estimated the potential loan volume size of an ERS Loan Model market in Germany at EUR 91 billion at least, based on 1 million persons between 55 and 69 years of age with property values in excess of EUR 100,000 but with income below the median equivalence income limit.

Using micro data of the German socio-economic panel (SOEP) 2002, Conrad (2007) considered a larger number of criteria, including the duration of living in the home, living conditions (singles or living without children), income and home equity values. A long duration of living in one's own home indicates a high willingness to stay there and buy an ERS. For singles it is likely to be more profitable to release their home equity than for couples, because payments would depend on the life expectancy of the younger household member. Conrad found that the number of debt-free homeowners older than 62 years, who are singles or live without children for at least 10 years in their home, whose income is at or below the medium income and who could increase their income by at least 20% using an ERS was about 1 million individuals in Germany. For the 1st quartile of the income distribution instead, the market potential was only about 600,000 individuals. Considering the geographical distribution of potential ERS customers, he found that more than 85% of them were concentrated in the six richest federal states (excluding the city states) in West Germany⁴, measured by GDP per capita.⁵

Maier (2011) estimated the potential demand for ERS in Germany using micro panel data (SAVE 2008 data). He found that nearly 35% of homeowners over 60 years old had low or

⁴ Baden-Wuerttemberg, Bavaria, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate

⁵ See: <https://de.statista.com/statistik/daten/studie/73061/umfrage/bundeslaender-im-vergleich---bruttoinlandsprodukt/> (25.11.2016).

insufficient liquidity, because they had no money from regular income left over or their income often or always did not suffice to meet their needs at the end of the month. For the poorer ones with income below medium, this percentage reached 43%. The average value of the owner-occupied home was about 208,000 Euro overall, but only 163,000 Euro for homeowners with income below medium. Assuming an interest rate of 3%, a risk premium of 1.5% for the reverse mortgage, and a 1.5% growth rate of nominal house prices, a home equity of 100,000 Euro would release an income increase of nearly 15% for a 60-year-old female with below median income. For males of the same age and older individuals, the benefits from an equity release would be higher. Nearly 80% of the elderly (60+) homeowners had home equity above 100,000 Euro. Based on about 6.5 million elderly homeowners in 2006, this would yield a potential demand of 5.2 million as an upper limit.

Maier and Johansen (2012) used survey data to compare the socio-economic characteristics of elderly homeowners (60+) that were interested in a reverse mortgage product (offered by Stiftung Liebenau) with those of a representative sample of homeowners in the same age class (SAVE 2010 data) in Germany. They found that homeowners interested in ERS are more likely to have no children, to be female, to be singles, to have insufficient income, to have above average home equity, and to have higher educational levels.

Results from a representative survey in 2010 show that nearly a fourth of elderly homeowners in Germany face financial difficulties or liquidity shortages. 33% need additional money to finance old-age care and 26% to finance age-based conversion of the own home. Financial support of children has become more important for a fourth of the respondents (Schröder 2011).

Based on data from the income and consumption survey (EVS) 2013 in Germany, Wiegard et al. (2015) find that about a fourth of households living in their own single-family home, i.e. about 2.8 million, have a household income below 2,000 Euro and are thus more likely to be interested in an equity release product. Considering all elderly (65+) homeowners living in their own single-family home, the potential demand would be 3.6 million households, while 38% or about 4.3 million households living in their own single-family home are singles or do not have children. However, the market potential is likely to be lower, because this study does not take into account the level of mortgage debt.

Based on the most detailed estimation of Conrad (2007), we conclude that the market potential of ERS is about 1 million individuals, i.e. 1.2% of the population would be reached.

This situation however is likely to change as a number of demographic trends and reduced pension generosity will increase the appeal for consumers as years go by. The consequence of the low/negative interest rate era is leading many people saving for old-age to opt for investing in housing rather than the traditionally most important forms of saving in Germany which so far have been life-insurance and bank savings accounts. One factor that is limiting the market for ERS is the preference of consumers today to sell and move house when they need liquidity or to choose to let out their property and rent another property for themselves at a lower rent. Provider refinancing is also a severe problem and securitisation by way of MBS would require providers to have large lending portfolios and the necessary financial and legal competence in the subject of structured finance. Nevertheless, while necessitating cultural adaptation from consumers in how they perceive their housing asset, ERS is supported by the fact that potential ERS providers are not competing against other providers of loan-based forms of equity withdrawal since these re-mortgaging second charge mortgage opportunities are not prevalent in Germany's mortgage markets.

Perspectives from Stakeholder interviews:

On the basis of 11 structured interviews with a range of different German stakeholders (product providers, intermediaries, senior interest groups and home owner associations), the following observations could be drawn from the outlook of ERS market development (See Annex for the list of stakeholders consulted).

Future prospects

The vast majority of participants foresee a very positive development for the ERS market, albeit on a modest scale. The majority expect a certain change in the attitude of Germans towards their property, especially for the next generation, the heir generation. In principle, however, the Germans' preference for their own property will probably not change.

It is also assumed that the financial situation of significantly more households will be worse at retirement than it is for today's households. As a result, the number of homeowners who will need additional liquidity will also increase.

On the supplier side, the development is viewed with skepticism. Most of the stakeholders do not believe that the major players such as Deutsche Bank, Allianz, G-7 savings banks or the major building societies will return to the market in the next few years, or with new offers for ERS products.

Providers:

In the early days of the last century, home reversion products in Germany were often used only in rural regions, when family-owned farms were passed on to the next generation or by selling the property to the church. While private transactions have existed for centuries, only more recently have we seen the emergence of institutional solutions offered by foundations or real estate stock corporations. One such recent market entrant (the Deutsche Leibrenten AG) has become the first nationwide home reversion plan provider able to use the potential of widely diversified real estate portfolios to control the risks of the business model.

Because we have seen past market providers of Sale Model ERS leave the market due to profitability concerns for the owners of the venture capital funds behind the home reversion schemes, provider requirements on return on equity, which covers the customers' longevity risk, have to be met and these have to be balanced against consumer protection against the providers' default risk as well as the risk of living shorter than expected.

4.2.2 Hungary

In 2009, Hungary was identified as belonging to the group of Member States with less developed Loan Model ERS markets (Reifner et al. 2009b). Today, compared to other EU countries, it has medium conditions for ERS (Hennecke et al. 2017, Megyeri 2018, see above section 4.1). Both the need for ERS and its feasibility are at EU average. While age dependency ratio and life expectancy are comparatively low, the share of 65 older and the pension gap are comparatively high. Old-age poverty is slightly above average. Both homeownership rate (as a favourable feasibility condition) and household size (as an unfavourable feasibility condition) are above EU average.

The Hungarian state does not provide incentives for Equity Release Schemes. However, the Hungarian housing policy favours building up housing property, which may work as the basis for the development of ERS in the future (Dötsch et al. 2018, Case Study HU). Estimations of ERS market potential are missing so far.

Perspectives from Stakeholder interviews:

On the basis of structured interviews with members of a pensioner interest group ("European Comrades in Need"), the Hungarian insurance supervision authority (since 2013 a department of the Hungarian Central Bank) and the lively discussions with the founder of one of the former providers of ERS in Hungary, Imre Hild, it seems safe to state that there is a relatively low market potential today. Potential customers are still under the impression of the effects of the global financial crisis, which heavily affected Hungary. Regarding private pensions, the radical reforms of 2011/2012 are another important factor. Distrust seems to be an integral part of the Hungarian culture and has obviously been reinforced by these developments. On the one hand, residential property is perceived as the safest form of wealth, perhaps even stronger than ever. On the other hand, trust in financial providers and even in the state today is perhaps lower than ever. However, the market potential may change on the long run. Imre Hild grouped the reasons why ERS

could work in Hungary in the past into three main groups: 1) structural reasons (e.g. pensioners without children, amount of pensions spent on maintenance, 2) financial reasons (level of old age provision provided by the state) and 3) social reasons (lifestyle). The Hungarian insurance supervision authority stressed the argument that the population development, the share of residential property and the expectable level of statutory pensions may make ERS products more attractive in the long run. But this would require also a generally higher level of financial literacy, a change of the special relationship Hungarians have to their residential property and an improvement regarding trust, especially in financial providers. This stance corresponds to the statements of the members of the pensioner interest group, which, in a nutshell, first and foremost missed trust.

4.2.3 Ireland

In 2009, Ireland was identified as belonging to the group of Member States with significant ERS markets (Reifner et al. 2009b). Today, compared to other EU countries, it has less favourable or medium conditions for ERS (Hennecke et al. 2017, Megyeri 2018, see above section 4.1). The need for ERS is at EU average, but feasibility is below it. While a comparatively low age dependency ratio and replacement rate as well as high per capita private pension assets reduce the need for ERS, life expectancy, share of elderly and risk of poverty for elderly are around EU average. On the feasibility side, comparatively high household size and house price volatility are unfavourable conditions for ERS. The liquidity of the housing market (measured by the number of residential transactions per homeowner households or per capita) is at EU average (Hennecke et al. 2017), but much lower than in the UK. However, after the announcement of a Government Help-to-Buy scheme and the easing of mortgage restrictions, housing transactions rose by 22.3% from January 2016 to January 2017 (The Royal Hospital Kilmainham 2016). There are no direct tax incentives for Equity Release Schemes (Jaiyawala et al. 2018, Case Study IE).

Although the number of people aged 65 and above has increased, the share of housing sales for downsizing has more than halved since 2014. This may be due to the high accommodation cost (both owner occupied and rental) that has forced more and more young adults to remain in the family home for longer, or to expectations of increasing house prices. House price inflation has continued to accelerate in 2017, also because of the Help-to-Buy scheme and relaxation of mortgage rules (Savills 2017). A survey of 554 adults aged 55+ revealed that while the vast majority of these elderly were happy in their current home, the reasons for this was mostly not related to the dwelling, but to the location. Community and contact with friends and neighbours were amongst the most important reasons what would deter people from moving. This indicates that 'ageing in place' is important and that downsizing as an alternative to remaining in the home with an ERS must be in the same neighbourhood (The Royal Hospital Kilmainham 2016).

Estimations of ERS market potential are missing so far. However, projections indicate that the demand for such supplementary pension products is likely to increase in the future. In Ireland, the share of the population aged over 65 has been increasing at a faster rate than in other EU member states. The percentage of the over 65 population is expected to double, from 12.4% in 2015 to 24.9% by 2050. By 2031, the number of people aged 65 and over will be nearly one million. Also, the old age dependency ratio is projected to increase significantly, from less than 20% in 2015 to almost 45% by 2050. At the same time, the number of persons per household is declining and projected to decline further. Although ageing in Ireland is concentrated on the rural areas, there is important variation in urban areas. In Dublin, the ratio of persons 65+ is very highly correlated with non-mortgaged homeowners. In these urban areas, the market potential of ERS is likely to be high. On the other hand, the rental sector is growing in significance especially for the younger generation (The Royal Hospital Kilmainham 2016), which will reduce the feasibility of ERS.

4.2.4 Italy

In 2009, Italy was identified as belonging to the group of Member States with less developed Loan Model ERS markets (Reifner et al. 2009b). Today, compared to other EU countries, it has medium conditions for ERS (Hennecke et al. 2017, see above section 4.1),

with both need for ERS and feasibility at EU average. As need indicators, the age dependency ratio and the pension gap are comparatively high, and the share of 65 older is comparatively high. Life expectancy and risk of poverty for the elderly are at EU average. On the feasibility side, the housing and mortgage market conditions are at EU average, while the comparatively low household size is a favourable condition for ERS. There are no public policy incentives for Equity Release Schemes in Italy, but fiscal incentives support home-ownership (Murro & Palmisano 2018, Case Study IT).

Among the individuals aged 65 or older, about 25% live alone and 30% is not able to face an unexpected expenditure higher than 1,000 euro. However, about 90% of the over 65 are homeowners, and this percentage is distributed homogeneously with respect to the total population of each region. This implies that the demand for this kind of products is potentially high.

Despite households having high potential to keep their living standards unaffected at retirement, the supply of financial products related to housing depletion is practically non-existent. One of the reasons that explains why these schemes are not popular in Italy could be that – as opposed to the schemes of the lifetime mortgage – it precludes the possibility that the heirs recover the property. From a cultural point of view, Italians seem very attached to the home in which they grew up and the family has lived in their lifelong time⁶ (Fornero et al., 2016).

Based on the current market size, international benchmarks and previous experiences, 65plus, a consulting and servicing company specialized in life annuities and over 65 financial needs, has estimated the ERS market potential in Italy to be more than 20,000 home reversion schemes per year and 2bn Euro loan volume size (Pacella 2016).

Fornero et al. (2016) analyze the factors that hamper the development of ERS in Italy and the determinants of interest in reverse mortgages (RM) for a sample of Italian homeowners. They show that homeowners available to sell their home are those that result more attracted by the reverse mortgage. Individuals perceive such products, called *prestito vitalizio ipotecario* (PIV) as a personal debt even if the heirs are in charge of reimbursement, so their aversion to indebtedness is at the base of a low demand. Those more worried about their living conditions during retirement are more interested in PIV, suggesting that the demand for RM could increase in the future as the pension income decrease for any given age. Estimating the monetary value of reverse mortgage for older households (60+), they show that the potential benefit from taking an ERS would only be 8% of income overall, but higher for those over 71, singles, females and those with above average housing equity. They also find that being single or divorced increases the probability of being interested in these products, while being over 70 and living in the centre/south decreases it. They also show that women, older individuals as well as individuals with above average housing wealth, that represent the main potential beneficiaries, are less likely to be interested. Financial education and independent counselling to the elderly appear to be good instruments to increase the popularity of these equity release schemes.

However, the potential gain that could be obtained from ERS by reducing old-age poverty would be comparatively high in Italy. If 100% (70%) of the house value is converted, the reduction in vulnerability of older households would be about 16% (14%), which is remarkable compared to most of the other countries considered (Moscarola et al. 2015).

Last, it should be noted that there are at least two alternative forms of financial help that are used by old age people in Italy. First, the “cessione del quinto”, which however requires the reimbursement of this financial help during the life of the subscriber by subtracting

⁶ Italians are very emotionally tied to their homes. This is particularly true for elderly people, who are not keen to sell the home where the children grew up, and which is connected to dear family memories. Furthermore, the home is the major asset that is expected to descend to the heirs (i.e. children) on the death of the elderly. This expectation of inheritance is so strong that Italians must see recourse to lifetime mortgages, if any, as the extrema ratio.

periodically one fifth of the salary up to the total reimbursement of the debt. Second, the selling of the mere property, also called “naked property” in Italy, which however is costly and determines a considerable reduction of the value of the house.

Perspectives from Stakeholder meeting:

On the basis of the stakeholder meeting run with a range of different Italian stakeholders (the consumers, the providers, both in the financial and insurance sectors, the legislator, the Italian central bank representatives, the media and the academia representative), the following observations have been drawn. (See Annex for the list of stakeholders consulted).

During the meeting three were the main topics of discussion: first, the state of the art of the Italian legislation and its effect on 1) market development and consumers’ perceptions and 2) uptake of the ERS tools; second, the limitations and the strengths of both the demand and supply side of the market; third the dissemination and communication strategies of the ERS, implemented by the supply side, and the financial literacy of the beneficiaries of the ERS. For what concern the first topic and the analysis of the uptake of the ERS scheme the meeting highlighted the importance of understanding i) the evolutions of elderly’s needs given the longevity path that our society is undertaking and ii) the strategies for making the elderly knowledgeable of all the possibilities available to them, financial, social and economic ones. From the legislator’s point of view, the Italian system needs to face the following challenges: inefficient model of elderly assistance, lag in tax-reforms related to the inheritance and in legislative reform on urban management, and last but not least a high variability in the housing market price (e.i. cities VS small village). Regarding the limitation of the market, three main issues have been raised: first, the fact that consumers’ decision making, when it comes to saving and long-term planning, is peculiar and explained by behavioural inefficiency; second that the extension and the uptake of the ERS market depends also on the degree of development of the whole financial market of the country under analysis; and third, the providers face a measurement problem with respect to i) the aggregate longevity risk and ii) the edging strategies for solving that risk. Finally, the discussion on the third topic of dissemination, communication and financial literacy raised a lot of concerns from all the stakeholders. Financial education is fundamental when it comes to consider pension and saving plan-decision making. Knowledge, transparency and awareness that the new financial tools aim to better elderly’s life is crucial and hence, financial literacy, education and counselling can work as strategic factor in the development of an ERS market. Yet, if on the necessity of financial literacy almost every stakeholder expressed his/her strong opinions, less emphasis was put on “how” to think financial literacy program and more on how to spread information about either the ERS tool and its providers in the Italian scene.

4.2.5 The Netherlands

In 2009, the Netherlands was identified as belonging to the group of Member States with no ERS markets (Reifner et al. 2009b). Today, it has favourable ERS conditions measured by a broad index of need and feasibility (Hennecke et al. 2017), but unfavourable conditions regarding the potential of reducing old-age poverty (Megyeri 2018; Moscarola et al. 2015; see above section 4.1). The need for ERS is below EU average, mainly due to comparatively low risk of poverty for the elderly and pension gap, while feasibility is around average (Hennecke et al. 2017). If 100% (70%) of the house value is converted by ERS, the reduction in vulnerability of older households would be about 5% (3%), which is low compared to Spain, Belgium, Italy, France, Denmark and Germany (Moscarola et al. 2015).

In 2012, homeowners on average had a higher income and wealth beyond the wealth embodied in the owner-occupied dwelling than tenants. The age group 65+ of homeowners owned 214 billion Euros or 38% of equity in the owner-occupied dwelling (Haffner 2017: 219). According to Taskforce Verzilveren (2013: 5, 12), 437,000 owners own less than the amount of tax exempt wealth and 332,000 have less than a modal gross income of 33,000 Euros. About 223,000 households have both. These households might benefit from a reverse mortgage, the taskforce concludes.

As the appetite for ERS or the like products has not been very large in the more recent past, but new products are being offered, the question arises about the future prospects and the growth of demand for ERS (Toussaint, 2011; Ong et al., 2013; Haffner, Ong & Wood, 2015). Based on a survey of members of a pension fund in 2012, Kortleve & Hendriks (2013) report that 50% of homeowners would be willing to extract equity as last resort, while 30% would be willing to extract equity more generally. (Future) structural changes in the markets of pensions and homeownership may induce more demand for ERS products.

Tax reforms have discouraged the use of mortgage ERS (limitation of mortgage interest deductions), but encouraged the sale of property (Haffner 2018, Case Study NL). A point of attention must be that lump sum extractions that are somehow maintained as other wealth, for instance in a savings account, will be taxed as income from other wealth, while the owner-occupied dwelling would be exempted from income tax, once the mortgage loan is repaid (Rabobank, 2016b, Haffner 2018).

Perspectives from the stakeholder meeting

At this moment, the number of providers of equity-release products and sale-and-lease back constructions in the Netherlands is limited. Nevertheless, the interest in such products seems to be increasing, related to the greying population and the increasing demand for care. Consequently, new initiatives are popping up regularly.

As a result of the long life risk (often covering two partners) and the house price risk, equity release products are a risky and complex business for providers. Insurance companies and/or guarantee funds may mitigate these risks. Most of the stakeholders believe that the equity release market in the Netherlands will only truly develop if a third party (pension fund, guarantee fund) gets involved.

The market for equity release products works best in a situation of slightly increasing house prices. However, many housing markets, including the one of the Netherlands, are characterized by strong boom-bust cycles.

The current regulations regarding loan-to-income (LTI), which have become much stricter as a result of the financial crisis, are limiting the possibilities for older home owners to take out an extra or a new mortgage. Although exceptions to the LTI-rule are possible (*maatwerk*), banks are often reluctant to use this room of manoeuvre. Consequently, many older home owners with a relatively low income and a house that has been paid off are unable to get access to their housing equity.

In order to solve the above mentioned LTI-problem, a separate set of regulations and norms for older home owners that want to release equity needs to be developed. It may be an idea to connect the strictness of these norms to the reason why a household wants to release housing equity. For example, releasing equity in order to make the dwelling life course proof could be made easier than releasing equity for consumption purposes.

4.2.6 The UK

The United Kingdom belongs to the group of Member States with significant ERS markets (Reifner et al. 2009b). It has favourable ERS need and feasibility conditions compared to the EU average (Hennecke et al. 2017). The need for ERS is below, but feasibility is above EU average. Need for ERS is comparatively low due to a low age dependency ratio, high per capita private pension assets, while pension adequacy measured by the replacement rate is below average. Life expectancy, the share of elderly and at risk of poverty for the elderly are at average. Feasibility is high mainly due to comparatively low household size. Homeownership and mortgage market conditions are at average. According to Megyeri (2018), the conditions for using ERS to reduce old-age poverty in the UK are comparatively unfavourable, because homeownership rates and old-age poverty are below EU average.

An estimation of ERS market potential in 2005 considered homeowners aged 60-65 with over £60,000 of home equity, an inadequate income in retirement, who do not believe that leaving a significant inheritance is important, and who do not say they would 'never

consider borrowing against their house'. The estimated market potential was about 30,000 individuals and sustainable annual sales of 80,000 contracts in the long term (The Actuarial Profession 2005, p.15). A more recent estimation found that ERS could lift more than 1 million (or, in a more aggressive scenario even nearly 23 million) pensioner households out of poverty for a year between 2012 and 2040. It is based on ERS products sold by the main provider (Just Retirements) and forecasts of the growth rate of the number of new equity release customers. About 60% of the existing customers are below a relative poverty threshold (Oxford Economics 2013).

The market potential for ERS is likely to increase in the future, due to recent housing policies, rising life expectancy, immigration and the growing number of one-person households in the UK (Sharma et al. 2018, Case Study UK).

4.2.7 Other countries

Portugal

Portugal can be considered as a moderately favourable ERS market. Need for ERS is high due to above average dependency ratio and share of 65+, while feasibility is around EU average (Hennecke et al. 2017). With slightly above average homeownership rate and old-age poverty, Portugal has (medium) favourable conditions for ERS to reduce old-age poverty (Megyeri 2018).

BNI Europa Bank launched the first Loan Model ERS on the Portuguese market in February 2017. It is called Cereja as is targeted at people aged 65 years or above. The provider is a member of the European Pensions and Property Asset Release Group (EPPARG), the European trade association for ERS providers and was present at the meeting the project team had with the group in 2016. On the basis of a now judged more favourable environment for the development of ERS, the innovative offering adds one more country to the list where such reverse mortgages exist. As with other such products, it allows the customer to release the wealth locked in its property, by using it as collateral through the issuance of a mortgage loan, and allowing the consumer to retain the ownership of their property. At the time of the research it was too early for the number of contracts to be reported in this report.

Spain

Spain is a country with high home ownership rate (82.3%) of which the share of mortgaged homes is of 39.5%. Those ratios, in case of people of 65 years or more are 87.2% and 6.2%, respectively⁷.

There has been a longstanding tradition of home ownership in this country, as this was considered to be the main asset for the family and all efforts were focused in acquiring it. This mentality still prevails, although with some changes.

Home ownership, public pension schemes, personal savings and family support have all allowed for the taking care of the needs of the elderly people until now. However with growing longevity and with the evolution in living conditions, it is nowadays becoming increasingly frequent for the elderly to reside in specialised caring institutions, or to require home care provided outside the family. Such changes in family culture bring the need to fund retired people needs, in particular when they become unable of self caring. Other sociological changes such as mono-parental families, high rate of divorces, immigration etc., are adding to conform new societal trends and are leading to an increasing concern that public protection plans and family support may not suffice (Reifner 2007). The answers received from a regulator (Bank of Spain) and from experts in Spain signalled that public awareness on the use of homes to obtain funds that complement pension schemes has increased significantly. One of the reasons that justifies this wide knowledge is the

⁷ Answers from Regulator, Bank of Spain

extensive media coverage at the time the reverse mortgage regulation was initially approved (2007).

However knowledge does not necessarily lead to consumption as in Spain there is a general perception that ERS are new, complex and expensive products. Also, as one regulator indicated, consumer organizations have issued warning against ERS⁸.

The ERS market in Spain includes products sold to non Spanish elderly that brought houses as a main or as a secondary residence and used them to leverage income.

Sweden

As a growing part of Swedish citizens become eligible for Estate funded pensions, there have been debates about the possibility of finding new means to supplement income for retirees⁹. Such debates include analyses about ERS and their differences with regular mortgages. Recently, a few studies have been conducted to analyse ERS (mainly Loan Model) from different perspectives¹⁰. Also, Swedish Government gives support to schemes that provide enough consumer protection (<http://www.hypotekspension.se/sa-fungerar-det/ranta-och-villkor/>).

Swedish population shows growing interest in expending until a later age as well as increasing understanding of the need to save (Bergman, Setterqvist, 2013, p 63). Other reasons for taking a reverse mortgage in Sweden include attitudes to enjoy life more through gaining additional income to be spent on additional luxuries and to traveling, as well as the possibility of premature retirement by gaining access to additional income (Chavez, Sandström, 2013, pp 91- 93)¹¹. Also, in this country the wish to leave a bequest upon death does not seem to be a driver against ERS (Chavez, Sandström, 2013, p 92). However, perceptions of ERS as being risky financial products or contracts with potential hidden costs, and even feelings of embarrassment related to contracting ERS are still reported (Chavez, Sandström 2013, pp 92-93). In accordance with academic research the promotion of reverse mortgage differs between different regions in Sweden and this is interpreted as a barrier (Setterqvist, 2013, p 80).

⁸ This answer mentions warnings from ADICAE (<http://www.adicae.net/>) and AUSBANC, (<http://www.ausbanc.com/>).

⁹ Over 76 percent of all Swedes had savings in mutual funds, which represents a substantial growth since 1995. (See figure of Swedish banking association, 2013, in Bergman, Setterqvist, 2013, page 26) at <https://www.diva-portal.org/smash/get/diva2:692825/FULLTEXT01.pdf>.

¹⁰ Also, some University research has been developed on the subject (i.e. Bergman, Setterqvist, 2013, The Implementation of Reverse Mortgage in Sweden - A Financial Institution Perspective <https://www.diva-portal.org/smash/get/diva2:692825/FULLTEXT01.pdf>; Chavez, Sandström, 2013, Investigating a Psychological Perspective of Reverse Mortgage - How is Reverse Mortgage Perceived by Potential Borrowers in Sweden?, <http://www.diva-portal.se/smash/get/diva2:634359/FULLTEXT01.pdf>

¹¹ Chavez, Sandström (2013) Investigating a Psychological Perspective of Reverse Mortgage. <http://www.diva-portal.se/smash/get/diva2:634359/FULLTEXT01.pdf>.

5 Fiscal incentives and other public policy options for private pensions and homeownership: cross-sectional case study

The market conditions for ERS examined above (Chapter 4) are embedded and shaped by the institutional and regulatory framework in each country. This cross-sectional study summarizes the insights of six country studies (Germany, Hungary, Ireland, Italy, the Netherlands, and the United Kingdom) analysing the fiscal incentives and other public policy options, which affect people's decision to invest in private pensions and home ownership.¹²

Section 5.1 covers the role of private pension schemes in old-age provision, with special attention given to the six countries of our case studies. It also states the main fiscal incentives available to increase participation in voluntary private pension plans and gives a short outlook on the risks and challenges faced by private pension schemes. This shows that there is a sound basis for releasing equity from owner-occupied housing assets.

To assess the potential of ERS further, section 5.2 focuses on the markets for mortgage and housing in more detail. The current market situation and the most important trends are presented in the first subsection. A common reference point is the global financial crisis and its varying impact in the six member states. The second subsection focuses on policy measures such as the use of macro prudential instruments, taxation, and subsidies as well as on potential obstacles for further market development.

Section 5.3 summarizes the results, identifying country best practices for integrating property with private pensions.¹³

5.1 Old-Age Security and Private Pensions

5.1.1 Overview

Pension systems in the 28 EU member states, like in other countries, differ widely. They originated at the end of the 19th century and can be roughly classified as to either belonging to the Beveridge or to the Bismarckian type of old-age security. Under the Beveridge regime, for avoiding poverty in old age, a tax- or contribution-financed statutory basic pension for everybody is offered, with – usually funded – occupational pension schemes providing for an adequate standard-of-living after retirement. In contrast to that, under the Bismarckian regime, the focus for maintaining one's standard-of-living is on a statutory, earnings-related social insurance system, usually organized on a Pay-As-You-Go (PAYG) principle, with tax-financed and means-tested minimum income in old-age for those with no adequate earnings career. Originally, occupational pensions played only a minor role under such Bismarckian types of pension systems. In both types of pension systems, private old-age provision is only of a secondary order.

The World Bank (1994) and the OECD (2005a) put a lot of effort in developing coherent taxonomies which would enable one to analyze and compare pension systems across countries in more detail than the distinction between Beveridge and Bismarckian types allows (for a short discussion see European Parliament, 2014, pp 15-17). The World Bank puts the focus on the main addressees of pension policies: the state for the first pillar, employer/employees for the second pillar, and the individual for the third pillar. In contrast to that, the OECD taxonomy concentrates on the main objective of a pension 'tier': avoiding old-age poverty on the first tier, maintaining one's living standard after retirement on the second tier, and saving for additional pension income on the third tier. While the first and second pillar resp. the first and second tier are not congruent, there are no differences in

¹² This section was prepared by Jörg Dötsch, Martina Eckardt and Greta Wagner, see Dötsch et al. (2017).

¹³ For a classification of policy measures in regard to personal pensions or private homeownership as either market-creating, market-correcting or market-compensating social policies see Eckardt (2018).

regard to personal pensions between these two taxonomies. Since the individual is the addressee of the objective to provide for extra old-age income, private pension schemes, which are in the focus of our research project, belong to the third pillar resp. the third tier.

What complicates cross-country comparisons of pension systems more is that each classification, be it between Beveridge and Bismarckian pension regimes or according to the World Bank or OECD taxonomies, is usually only a rather rough description of actual national pension systems. It refers mainly to the predominant pension schemes in a country in terms of coverage. It does not take fully into account, how old-age security is organized for certain parts of the workforce (like the public service or the civil service) or for specific groups of the population, like the self-employed, or those who belong to the non-working population. In some countries particular pension schemes for survivors or people with disabilities, for example, exist. All these additional pension schemes might exhibit quite different features as compared to those covering the majority of the population, respectively the workforce within a country, thus rendering one-dimensional international comparisons difficult. However, since this research project concerns only private pension schemes, which are aimed at providing additional income in old-age, our focus is on the third pillar according to the World Bank taxonomy as well as on the third tier according to the OECD classification.

According to the OECD, personal pension schemes are defined as follows:

“Personal pension plans: access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership.

Mandatory personal pension plans: these are personal plans that individuals must join or which are eligible to receive mandatory pension contributions. Individuals may be required to make pension contributions to a pension plan of their choice – normally within a certain range of choices – or to a specific pension plan.

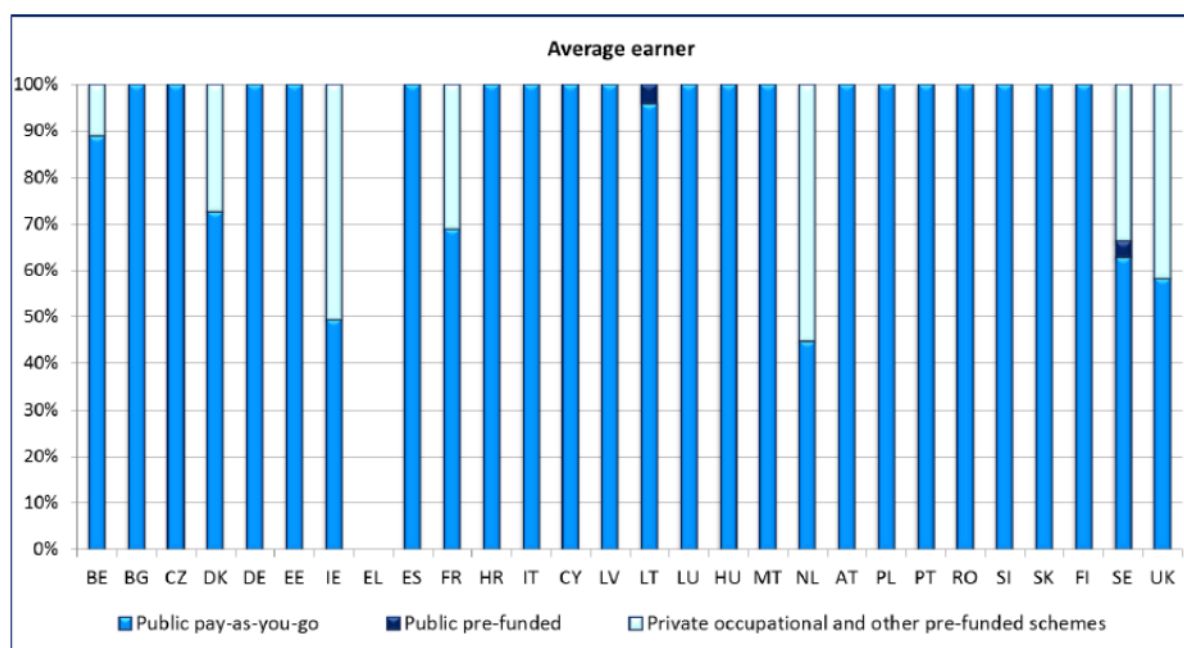
Voluntary personal pension plans: participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a pension plan. They are not required to make pension contributions to a pension plan. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security benefits with those from personal pension plans” (OECD 2005b, p 13).

Three of the six countries from our case studies belong to the Bismarckian social security model. In Germany, Italy and Hungary the first pillar is organized as a mandatory PAYG pension system, with contributions paid by employers and employees. Benefits from this pillar are related to one’s earnings career, thus these pension schemes can be said to be of the defined benefit (DB) type. To some extent, benefits are also indexed in regard to wages (Germany) or inflation (Italy) and they also take changes in life expectancy into account (Italy, to some degree in Germany). Occupational pensions from the second pillar are mostly voluntary, like it is the case with P pensions from the third pillar. In Hungary, they are quasi negligible, while they are of more importance in Germany and Italy both in terms of coverage as well as in terms of their share in pension income (see Table 4).

In contrast to that, the current pension systems of the United Kingdom, Ireland and the Netherlands evolved under the Beveridge regime, with the first pillar only providing for basic retirement income, be it means-tested like in the UK and Ireland, or based on residency like in the Netherlands. In these countries, (quasi-) mandatory occupational pension schemes are of utmost importance for securing the standard of living after retirement. But again, personal pensions play only a rather limited role in providing for old age security.

Figure 10 shows that indeed, public PAYG schemes provide for the main income in the Bismarckian type of pension regimes in Germany, Italy and Hungary, while occupational pension schemes are of major importance in the Beveridge type regimes of the United Kingdom, Ireland and the Netherlands.

Figure 10: Shares of different pension schemes in gross theoretical replacement rates (TRR) for average income earner (2013)



Data source: Member States. Ref. base case variant II (40 years up to the SPA). Based only on the schemes included in the TRR calculations. Data for EL not available. If gender differences exist, results for men are reported.

Source: European Commission/ Social Protection Committee (2015a, Figure 10, p 17).

In the six countries of our case studies, a number of pension reforms have been implemented in the last decades to ensure the financial sustainability of pension systems in the face of increasing life expectancy and lower birth rates. In line with current EU principles, all countries increased the statutory retirement age over the next years. Besides, different measures have been introduced to decrease legal claims to statutory pension entitlements. Since this implies a reduction in pension replacement rates too, reforms to compensate these tried to strengthen participation in occupational and personal pension schemes. However, personal pension schemes are still predominantly voluntary. So far, only six out of the 28 EU member states introduced mandatory schemes (Croatia, Estonia, Latvia, Romania, Slovak Republic).

Table 13 lists the names of the main personal pension schemes in place in the six countries of our sample, which are all voluntary. Personal pension plans are usually of the defined contributions (DC) type. This implies that the pension income from such plans is not certain, but depends on a number of factors, like development of financial markets, investment policies of the respective pension fund or insurer etc. Nevertheless, some of these private pension plans may be “protected”, which implies that the person subscribing to it has some guarantee as to the pension benefit generated by it. This is in contrast to “unprotected” schemes “where the pension plan/fund itself or the pension provider does not offer any investment return or benefit guarantees or promises covering the whole plan/fund”(OECD, 2005b, p 13). The three main types of personal pension plans are lifetime annuities, income drawdown products and products allowing for taking out a lump sum (Oxera 2014, p 17f.). They show a broad variety of different product variants, with the transition to other long-term savings vehicles being fluent.

Table 13: Personal Pension Products

Country	Personal Pension Products
Germany	Riester pension plans (comprising: pension insurance, bank savings plans, investment fund savings plans, homeownership agreements) Rürup pension plans (Basisrente) Private life and pension insurance

Hungary	Voluntary privately managed pension funds Voluntary private pension funds Private pension insurance Individual retirement saving accounts
Ireland	Retirement annuity contracts (RAC) Personal retirement savings accounts (PRSA)
Italy	Open personal pension funds Individual pension plans provided through life insurance contracts
Netherlands	Special-purpose bank savings account (“Banksparen”) Endowment insurance Annuities
United Kingdom	Personal Pension schemes Group personal pensions Group stakeholder pensions

Source: Own composition according to country case studies in Eckardt et al. (2018) and OECD (2015c).

So far, such individual personal pension plans play only a rather minor role. This holds in regard to coverage, which should be below 10% for most EU member states, but also in terms of the savings made in these schemes as well as in regard to the additional pension income provided (European Parliament, 2014, pp 38-51). This holds even if fiscal incentives exist, like special tax treatment or subsidies, which we discuss in the next section. Note, however, that potential demand may increase without fiscal incentives if demographic changes continue, leading to a further decline in replacement rates, etc.

5.1.2 Fiscal Incentives

Fiscal treatment of different pension schemes varies substantially between countries. Moreover, incentives aimed at increasing voluntary private savings for retirement may also differ within a country for different types of pension plans. In 2014, the OECD launched a project to increase knowledge about the fiscal incentives in place as well as to their potential impact on private old-age savings. As a first result, a 2015 report gives a comprehensive overview of the variety of taxation rules in place with respect to private pension schemes for the OECD and EU member states (OECD 2015b, 2015c).¹⁴ In the following we summarize the main types of fiscal incentives, while a detailed discussion on the one’s applied in our six countries are to be found in the chapters on the single countries in Eckardt et al. (2018).

The main fiscal incentives to increase private pension savings result from how taxation relates (1) to contributions to such schemes, (2) to the returns on investment and the accumulated funds and (3) to the benefits from these pension plans. In addition, personal pension schemes might also be (4) subject to social security contributions. Finally, (5) subsidies might be available to incentivize contribution in private pension savings.

Generally, most countries use an approach to taxation of private pension plans where both contributions and returns are tax exempt, while benefits are (partially) taxed (in short: EET) (OECD, 2015b, pp 3-6). However, *Table 14* shows that for the six countries covered by this research project, there is a lot of variation in regard to tax treatment, with no two countries applying the same overall design. In addition, different types of private pension plans may be treated differently, adding further complexity to the fiscal incentives set, like it is the case in Germany, for example. Since the lines between personal pension schemes and other long-term savings products are blurred, it is not possible to state the overall incentives set by taxation rules.

¹⁴ For the latest analysis of the taxation of personal pension products see European Commission/ EY (2017).

Table 14: General tax treatment of funded personal pensions (2015)

Country	Type of plan	Tax treatment		
		Contributions	Returns	Withdrawal
Germany	Private pension insurance	T	E	T/PE
	Other plans	E	E	T
Hungary	All	T/PE	E	E
Ireland	All	E	E	T/PE
Italy	All	E	T	T/PE
Netherlands	All	E	E	T
United Kingdom	All	E	E	T/ PE

Notes: T = Taxed, E = Exempt (usually up to a limit); T/ PE = Taxed but partially exempt.

Source: Own composition according to OECD (2015b, Table 2, pp 5f).

With respect to the taxation of contributions, additional variance may result from the following instruments available to policy makers (*ibid.*, pp 7-11). Depending on one's income level, personal income tax rates may differ. Besides, the amount of contributions which are tax-free may be limited, while excess contributions may be either not permitted (Ireland), or be taxed according to the general personal income tax rates (Germany, Hungary, Italy, Netherlands, United Kingdom; see *ibid.*, Table 3, pp 9f). Moreover, eligibility criteria for tax relief on contributions can vary according to personal income, age, other characteristics of pension plans (like: a minimum number of contribution periods, a certain retirement age, benefits being withdrawn in a certain form, like an annuity etc.) (*ibid.*, p 11).

If the returns of private pension funds are taxed, again a number of different options exists. These refer for example to the type of asset class (Italy), which is taxed, or the tax rate applied. Furthermore, in some countries, the funds accumulated can be taxed already before retirement - in total, in part or only when exceeding a certain life-time limit (Ireland and the United Kingdom) (*ibid.*, pp 11-13).

Taxation of benefits also varies markedly. Tax treatment of benefits is identical in 17 of the EU-28 members, including Germany, Hungary, Italy and the Netherlands (*ibid.*, p 13), with all types of pension income being tax exempt in Hungary (*ibid.*, 16). Differences exist also in regard to whether lump sums are partially or totally tax free as it is the case in Ireland, Hungary and the United Kingdom. Annuities and lump sums may also be taxed differently. However, this applies so far only to pension schemes in the Czech Republic and Estonia (*ibid.*, p 13). Early withdrawals can be disincentivized by applying higher tax rates (Hungary, Italy). Furthermore, pension income is treated more favourable than income from work in most countries. Tax credits are applied *inter alia* in Ireland, Italy, The Netherlands, with special tax allowances available also in Ireland and Italy, while Germany knows tax deductions to pension benefits (*ibid.*, p 16).

Contributions made by individuals to private pension schemes are usually subject to social security contributions, since these contributions are paid out of work (and additional) income, for which usually social contributions have to be paid (*ibid.*, p 16). The case is different in regard to whether pension income is also subject to social security contributions. No social security contributions on private pension income are levied in Hungary, Italy, and the United Kingdom, while there are contributions imposed in the Germany, Ireland and the Netherlands (*ibid.*, Table 5, p 17).

Finally, there might be additional fiscal incentives applied, like matching contributions from the state, tax credits and subsidies to incentivize savings in private personal pension schemes. The latter are available only in Germany, while Italy, Hungary and the United Kingdom offer matching contributions (see Table 15).

Table 15: Additional financial incentives

Financial Incentives	EU member states
Matching contributions	Austria, Croatia, Czech Republic, Hungary, Italy , Lithuania, United Kingdom
State subsidies	Germany
Tax credit	-/-

Source: Own composition according to OECD (2015b, Table 6, p 19).

Finally, costs related to private pension products, like fees for concluding a contract, might be tax deductible or receive preferential fiscal treatment in some other respect.

However, there might also be disincentives for investing in private personal pension schemes. For example, in Germany, income from such schemes is considered for means-tested social-benefits or in case of care-related expenses in old-age. Thus, low-income groups in particular might exhibit the more or less rational expectation that additional saving in personal pension schemes will not pay off for them.

In addition, so far there is no comprehensive analysis as to the overall impact of the incentives set by preferential tax treatments for personal pensions. For example, it is not clear whether such measures really increase private old-age provision or will lead only to a substitution of tax-favoured in contrast to non-tax favoured private savings product for old-age (Working Party on Private Pensions, 2014).

5.1.3 Outlook: The Role of Private Pension Schemes for Old Age Security

There are still profound challenges ahead to guarantee an adequate standard of living in old- age for all pensioners despite the reform efforts already undertaken in the EU member states' national pension systems. In particular, persons with a non-continuous employment biography face the risk of a too low net replacement rate of pension entitlements and thus of old-age poverty. Besides, rising income inequality during one's working life also translates in an even increasing income inequality during one's retirement age. Both these factors affect women more than men, migrants more than long-time residents. Table 16 shows the current theoretical gross replacement rates for selected EU member states using data from the OECD pension indicators databank (OECD 2016). The gross replacement rates from mandatory public and occupational pension schemes ranges from 90.5% in the Netherlands (including the quasi-mandatory occupational schemes with a coverage of 91% of employees via industrial relation agreements in 2014) to 21.6% in the United Kingdom for persons with an average earnings career. The mean value regarding the EU-28 is 59%. According to these figures, there is still scope for increasing income in retirement through private savings. However, so far pension income from private pension plans play a more important role only in Belgium, Germany, Ireland and the United Kingdom, raising gross replacement rates to a substantial degree in these countries.

Table 16: Gross pension replacement rates from public, mandatory private and voluntary pension schemes (Percentage of individual earnings)

	Mandatory Public			Mandatory private (DB & DC)			Total mandatory			Voluntary DC			Total with voluntary		
	0,5	1	1,5	0,5	1	1,5	0,5	1	1,5	0,5	1	1,5	0,5	1	1,5
Austria	78,1	78,1	77,6				78,1	78,1	77,6				78,1	78,1	77,6
Belgium	47,6	46,6	35,3				47,6	46,6	35,3	13,3	13,3	10,1	60,9	59,9	45,5
Czech Republic	78,9	49,0	39,1				78,9	49,0	39,1				78,9	49,0	39,1
Denmark	56,2	21,5	10,3	51,3	46,3	44,7	107,4	67,8	55,1				107,4	67,8	55,1
Estonia	40,1	28,5	24,6	22,0	22,0	22,0	62,1	50,5	46,6				62,1	50,5	46,6

Finland	55,8	55,8	55,8				55,8	55,8	55,8				55,8	55,8	55,8
France	56,8	55,4	48,2				56,8	55,4	48,2				56,8	55,4	48,2
Germany	37,5	37,5	37,5				37,5	37,5	37,5	12,5	12,5	12,5	50,0	50,0	50,0
Greece	79,4	66,7	62,3				79,4	66,7	62,3				79,4	66,7	62,3
Hungary	58,7	58,7	58,7				58,7	58,7	58,7				58,7	58,7	58,7
Ireland	69,5	34,7	23,2				69,5	34,7	23,2	30,3	30,3	30,3	99,8	65,1	53,5
Italy	69,5	69,5	69,5				69,5	69,5	69,5				69,5	69,5	69,5
Luxembourg	89,5	76,8	72,5				89,5	76,8	72,5				89,5	76,8	72,5
Netherlands	54,2	27,1	18,1	39,8	63,4	71,2	94,0	90,5	89,3				94,0	90,5	89,3
Poland	43,1	43,1	43,1				43,1	43,1	43,1				43,1	43,1	43,1
Portugal	75,1	73,8	72,5				75,1	73,8	72,5				75,1	73,8	72,5
Slovak Republic	47,3	38,9	36,2	23,1	23,1	23,1	70,4	62,1	59,3				70,4	62,1	59,3
Slovenia	44,4	38,4	36,0				44,4	38,4	36,0				44,4	38,4	36,0
Spain	82,1	82,1	82,1				82,1	82,1	82,1				82,1	82,1	82,1
Sweden	37,0	37,0	27,4	19,0	19,0	37,8	56,0	56,0	65,2				56,0	56,0	65,2
United Kingdom	43,3	21,6	14,4				43,3	21,6	14,4	29,8	29,8	29,8	73,1	51,4	44,2
EU28	60,8	49,3	43,7				69,9	59,0	54,4				73,0	62,1	57,4

Note: According to the OECD classification (OECD 2005b, 13), voluntary pensions might include contributions by employers. Source: Own composition according to OECD (2015a, Table 6.4, p 141).

The projections of replacement rates from the 2015 Pension Adequacy Report and from the 2015 Ageing Report show similar results albeit they differ in terms of pension schemes included and methods used for calculating replacement rates (European Commission/Social Protection Committee, 2015a, pp 197-321; 2015b; European Commission, 2015, pp 54-112).

Personal pension schemes could indeed play an important role in increasing private savings for old age and thus supplementing pension income from mandatory public and occupational pension schemes. If the mandatory pension schemes in place should prove to provide too low pension income in old-age due to the ongoing demographic change, private pension schemes as well as other savings products like ERS will become more important. However, such private pension schemes are also associated with a number of challenges. Individual personal pension plans depend on the broader development of financial markets. Since they are of the DC type, the main risks related to investment in such pension plans rests with the individual contributor.

The most important risk categories, for which adequate regulation has to be put into place, are financial, regulatory, behavioural and longevity risks (European Parliament, 2014, pp 26-37). Pension funds and pension insurance companies offering personal pension plans invest in assets whose returns depend on the development of the stock and bond markets. This exposes pensioners to financial risks depending on market developments. Currently, the low interest rates following the Global Financial Crisis in the EU make such investment less attractive and pose problems for insurers, for example, to meet former guarantees given to clients. In addition, markets for such products are often characterized by little transparency and strong information asymmetries. Together with product differentiation and high costs of the financial distribution system, there might be strong market inefficiencies, with the result of monopolistic rents paid by consumers to financial intermediaries. Regulations in place should help reduce such risks. However, they are themselves subject to inefficiencies due to lobbying activities from the pension industry, for example, thus creating regulatory risks. In addition, behavioural risks might result from inefficient portfolio management, but also from non-prudent decisions made by individual consumers when it comes to adjust pension portfolios. Principally, longevity risks that is

“uncertainty over the average future mortality of a given cohort of the population” (European Parliament, 2014, p 27), can be insured away. Whether this is done, however, depends on whether both private pension funds and insurers as well as consumers are willing to pay the resulting insurance premium or not. Again, due to the existing financial, regulatory and behavioural risks, dealing with such longevity risk might result in sub-optimal outcomes.

Finally, the scope for personal pension savings may be limited in particular for the most vulnerable groups of the population in regard to inadequate old-age income. These include the younger workforce in comprehensive statutory PAYG pension schemes, those with lower income and those with an atypical earnings career. Moreover, despite the fiscal incentives set by governments to increase savings for personal pension plans, it is so far quite unclear, whether such savings are not only substitutes for other, not tax-preferred savings. The OECD project on “Financial Incentives and Retirement Savings” under way will show whether these fiscal incentives do not just lead to windfall gains, but to an overall increase of pension savings improving adequate pension incomes in the future (Working Party on Private Pensions, 2014). However, if the latter turns out to be the case, it may well be better to increase public and occupational pension schemes as well as to look for other ways to use existing personal savings. One way for generating additional income in old-age may be to make savings invested in homeownership available by equity release schemes (see also Moscarola et al., 2015). Thus, the next section gives an overview of the potential of homeownership for contributing to increased pension income in the future.

5.2 Mortgage and Housing Markets

Mortgages are instruments generally used to finance housing. The markets for mortgage credit and housing are hence closely interlinked. Moreover, their development depends to a high degree on the complex socio-economic context of each country. The “tight link” (Elsinga 2015, 27) between the markets for mortgage and housing on the one hand and the economy on the other hand results in a multi-faceted overall picture, which is displayed by the findings of our six case studies.

However, state intervention is common to both the housing and the mortgage market: “...all states intervene in housing markets, and mortgage markets have been regulated ever since they came into existence” (Scanlon & Elsinga, 2014, p 337). While these interventions are of immense economic importance, different countries pursue different aims, follow different traditions and apply different instruments. Policy measures in the countries covered are based on different preconditions. The objective of the following section is to provide a structured overview on the variety of policy approaches among the six EU member states covered in this study and thus to enable an easy access to the rich information given in the single case studies.

Although the “tight link” between mortgage and housing markets inevitably requires cross-references, we treat both markets in separate sections. This ensures greater clarity and allows for a more precise depiction of specific aspects and trends. The key findings of the country case studies are presented in the most comparable way possible in order to provide a clear and detailed overview of the respective developments in the six countries covered.

Each section has a three-step structure. A short introduction highlights the main differences and similarities across the six member states. This gives a first impression of the heterogeneous developments and predominant socio-economic regimes. We demonstrate the possibilities and boundaries of classifying the countries in our sample into homogenous groups with similar properties. The second subsection describes the current situation and key developments, referring as far as possible to the draft framework presented in the preliminary subsection. The third subsection addresses the respective policy instruments used by the countries studied. The description focuses in particular on taxes and subsidies as well as on regulation, summarizing the most important differences and similarities among the six countries.

5.2.1 Mortgage Market

(1) Overview

A thorough examination of the mortgage markets in the six member states in our sample reveals more differences than similarities. A comparison based on common categories of mortgage market segmentation such as loan-to-value (LTV) ratios, loan-to-income (LTI) ratios or mortgage debt, creates only a vague picture. It does not provide a sound basis to cluster the countries studied into coherent groups. In a similar manner, attempts to derive common properties or developments from more general categories such as differences in legal origin (British: United Kingdom, Ireland; French: Italy, Netherlands; German: Germany; Socialist: Hungary), membership in the Euro zone or not, economic differences between large countries (United Kingdom, Germany, Italy) and small countries (Netherlands, Hungary), market volatility, or financial stability remain superficial. The most important common reference point is the turbulent years of 2007/2008. With the exception of Germany, which was not as severely hit as the other countries in this sample, all member states had to cope with serious problems caused by the global financial crisis. This led to the introduction of similar macro-prudential measures such as bands for LTV ratios. The development towards macro-prudential regulation is also important, because this type of regulation “can directly impact mortgage market outcomes, with second-round effects on house prices” (European Commission, 2014, p 29). But overall, the six case studies reveal that each country has its own particular characteristics. This preliminary result already hints at a basic difficulty for the introduction of ERS products which are based on mortgage loans, but affirms the approach of the project to provide a broad analysis of the different preconditions in different countries.

Table 17 gives an overview of the current volume of outstanding residential loans.

Table 17: Total outstanding residential loans in selected EU countries (2014)

Country	Value in EUR billion	% change (2013-14)	% of GDP	% of Household Disposable Income	per Capita in EUR
Germany	1,237	2.36	42.4	66.0	18,271
Hungary	17	-7.31	16.6	29.1	2,106
Ireland	92	-4.53	49.4	101.7	26,830
Italy	359	-0.62	22.2	32.6	7,094
Netherlands	634	0.34	95.7	197.3	47,390
UK	1,667	8.59	75.0	116.4	32,884
Euro area 18	4,457	0.67	44.1	70.7	16,344
EU 28	6,909	2.52	49.6	79.0	16,787

Source: Clerc-Renaud et al. (2018, Table 8), data taken from Hypostat (2015).

The data show that the Netherlands and the United Kingdom are the frontrunners regarding residential loans per capita, per GDP and as percentage of disposable household income. Moreover, the United Kingdom shows the biggest annual growth rate with 8.6% from 2013 to 2014. Only Hungary, Ireland and Italy experienced a decrease of outstanding mortgage loans from 2013 to 2014 – which seems to be remarkable in a year of “return to growth” in the European markets (EMF Hypostat, 2015, p 12). However, it is important to look at these figures with a broader perspective. The recent trends experienced by the member states have to be interpreted carefully against the background of different country-specific developments before the crisis. The case studies present the most important details in the mortgage market. The figures in Table 5 already highlight the fact that there are considerable differences between developed and dynamic mortgage markets on the one side, and more ‘conservative’ and less dynamic mortgage markets on the other side.

The impact of the crises was felt across Europe and demanded new policy measures. Mortgage markets, as part of the financial services industry, are in general well regulated. Because of their important role for national economies – together with the housing markets – they constitute outstanding starting points for government intervention (Scanlon & Elsinga, 2014, p 337). The global financial crisis, however, revealed the shortcomings of

existing regulation and provided an incentive for change (Elsinga, 2015, p 27), almost necessarily causing increased state activity. Yet, the concrete responses of policy-makers differ in several aspects. These differences may occur due to several reasons such as varying cultural and political traditions as well as differing political aims or motivations. It is thus difficult to condense the broad spectrum of policy responses into a classification of country groups. At most, comparing certain details and referring to the paths of recovery after the crisis seem to be a reasonable approach.

Overall, the different policy measures in the face of the financial crisis indicate the importance of the respective institutional and regulatory environment in the six countries analyzed. Scanlon & Elsinga (2014, p 338) present a general framework and highlight the modes of market regulation. In their study on Policy changes affecting housing and mortgage markets, focusing on the United Kingdom and the Netherlands, they distinguish between three different regulatory approaches. The 'prescriptive/proscriptive' regulation approach aims "to protect consumers and wider society" (ibid, Table 1). The 'nudge' approach aims at "encouraging consumers to make choices that regulators favour" (ibid). The 'informational approach' should "improve market efficiency by enabling market actors to make better choices of regulation" (ibid). With regard to the level of decision-making, the three types of Scanlon & Elsinga (2014) represent a shift of responsibility from the state (prescriptive approach) to the market actors (informational approach).

Another consequence of the global financial crisis in the six member states was a tendency to lower the risk of mortgage lending by implementing macro-prudential instruments (e.g. new regulations of LTI ratio, see Jácome & Mitra, 2015). In addition, the housing market was important for reasons of economic recovery, e.g. housing allowance programs. Overall, regulation in mortgage markets seems to have become less informational in the sense of Scanlon & Elsinga (2014). However, regarding taxation, state guarantees or the impact of subsidies on mortgage (and housing) e.g., the developments in the six member states still differ. Other forms of differentiation provided by Elsinga (2014) as between countries with a conservative mortgage system, as e.g. Germany, and countries that expanded lending before the crisis, as the United Kingdom or the Netherlands (Elsinga, 2014, p 27), seem not to be appropriate to classify the characteristics highlighted by the case studies in this project.

(2) Current State and Key Developments

In the dawn of the economic and financial crisis, the mortgage and credit markets of most European member states were developing dynamically. The situation in the United Kingdom was characterized by increasing debt-to-GDP and debt-to-income ratios, as households held huge secured debts (Sharma et al., 2018). After decades of increasing house prices and due to favorable income tax treatment of home owners as well as mortgage market liberalization, the Netherlands had emerged as one of the frontrunners of mortgage debt in Europe. The Irish and Italian markets had started growing in the 2000s. Particularly the Irish mortgage sector was transformed into one of the most flexible and mature markets in the European Union at a staggering speed (Jaiyawala et al., 2018). Hungary showed a relatively dynamic development until the global financial crisis (Dötsch et al., 2018). In contrast, the German mortgage market has traditionally been described as more conservative with moderate levels of indebtedness per capita and GDP. The growth in mortgage debt from 2004-2014 was well below the EU-median (Clerc-Renaud et al., 2018).

After a peak in 2007, the budding Irish housing market collapsed dramatically (Jaiyawala et al., 2018). In the United Kingdom, housing prices and mortgage demand likewise fell substantially and the credit market was crippled. While mortgage lending remains below pre-crisis levels, the mortgage and credit markets in both countries show improvements. The British market for mortgages has been growing since 2010; mortgage and re-mortgage approvals are on their highest points since the crisis. Overall, the UK markets are recovering slowly, as regulation has become tighter. Secured lending also shows an upward trend. Since 2012 the supply of mortgages has improved markedly and house prices have increased in 2013/2014 (Sharma et al., 2018).

In Ireland too, the number of new mortgages and the value of lending has increased in the last three years. The majority of new lending goes to first-time buyers. The level of outstanding mortgage debt has been decreasing over the past five years. Macro-prudential regulatory tools impose limits on LTV and LTI ratios for new mortgages. Overall, the indebtedness rate in Ireland (household debt as % of disposable income) nevertheless remains one of the highest in Europe. In 2014, 20% of loans for owner-occupied homes and 35% of buy-to-let loans were in negative equity (Jaiyawala et al., 2018).

Like the British and Irish markets, the Italian mortgage and credit markets show improvements. In the past, Italian consumers have displayed a high propensity to save compared to other industrialized nations. European financial integration and particularly the easing of mortgage regulation before the crisis, nevertheless, led to an increasing household debt-to-GDP ratio. Since 2014, the supply of residential mortgages is growing again. The demand for mortgages is also on the rise due to falling house prices, low interest rates, and fiscal incentives for first-time home purchases. LTV ratios are prudent for Italian mortgages and have, partly as a result of stricter regulation, decreased for new loans. Default rates are also comparatively low and declining for younger mortgages. The share of mortgages in negative equity is currently near zero (Murro & Palmisano, 2018). While the European financial integration and market liberalization spurred competition in the Italian market and encouraged borrowing, the Italian mortgage and credit sector is still relatively small compared to the Irish and British markets. It also offers only a more limited range of products.

The Hungarian mortgage market is recovering from the crisis very slowly. Risk indicators, nevertheless, show a positive development. With 57%, the average LTV ratio for outstanding residential mortgages was relatively low in 2014. Due to a new regulation from 2015 onwards the maximum LTV ratio is allowed to vary between 80% and 85% at the end of 2014 and the maximum payment-to-income ratio between 50% and 60% (Dötsch et al., 2018). Compared to other loan types, housing loans and especially subsidized housing loans display a high quality. The problem of low-quality foreign-currency based loans has been addressed by the ban of foreign currency loans and their conversion into Hungarian currency loans.

The development of the mortgage market in the Netherlands has been fuelled by decades of rising house prices, favorable income tax treatment for owner-occupation, and market liberalization. In recent years, the mortgage market growth has, however, come to a stop (Haffner, 2018). Mortgage debt-per-GDP, which stood at more than 100% in 2012, has declined in 2013 and 2014. New lending for house purchases is declining for the first time in three decades. Considering the high level of mortgage debt-per-GDP and mortgage debt-per-capita, the Netherlands is, despite the trend reversal, still one of the frontrunners in regard to housing debt in Europe. The outstanding loans-to-disposable income ratio of households currently stands at 197%, which is the second highest rate in Europe behind Denmark.

The German mortgage-to-GDP ratio has been falling since 1998, standing at 40.8% in 2014. Demand for mortgage loans is nevertheless strong and lending has generally shown a positive trend over the last years (Clerc-Renaud et al., 2018).

With the exception of Germany, all of the countries examined experienced a strong impact of the global financial crisis. However, the phase of recovery shows different characteristics. The comparatively sophisticated and dynamic mortgage and credit markets in the United Kingdom and Ireland, but also the Dutch and the emerging Italian and Hungarian markets took a hard hit during the crisis (Elsinga, 2015, p 26f), but seem to be stabilizing in recent years. The German mortgage market was not affected to the same degree. Lending in Germany remained stable throughout the crisis. Mortgage credit was not restricted and the crisis did not affect the number of repossessions (Clerc-Renaud et al., 2018).

(3) Policy Instruments

As shown in the previous subsection, member states cannot be compiled into homogeneous groups. This refers also to the design and use of policy instruments. A closer look at the

details reveals – at the most – two groups: countries using policies that actively stimulate the mortgage markets and countries relying on rather conservative policies. It is important to note that these are strongly influenced by the different approaches taken on housing policy in the various member states. Another aspect, which is observable in almost every country, is a tightening of the regulation of mortgage lending (Scanlon & Elsinga, 2014, pp 341-343), which is mostly due to the impact of the global financial crisis. Following the crisis many countries also adopted policies to assist mortgage borrowers in financial distress. In the following, we first present the most important regulatory characteristics, before we focus on tax treatment and additional fiscal incentives.

Regulation

Both the United Kingdom and Ireland have markedly tightened their mortgage and credit market regulations in response to the financial and economic crisis. Irish regulators focus in particular on macro-prudential policy instruments, placing restrictions on LTV, LTI, and debt service ratios for new loans (e.g. LTV ratio of 70%-90% for different types of mortgages). In the United Kingdom, the Financial Services Act of 2012 changed the institutional framework by closing the Financial Service Authority and establishing in its place the Financial Policy Committee (FPC) and the Prudential Regulatory Authority (PRA), both being subsidiaries of the Bank of England, as well as the Financial Conduct Authority (FCA) as an independent body. The FCA is now responsible for regulation of conduct in the mortgage market, it oversees the relationship between lenders and borrowers. The PRA and FCA respectively carry out prudential regulation. The FPC mandates further macro-prudential restrictions in the form of directions and recommendations (Sharma et al., 2018). Like in Ireland, in Hungary the competence for financial supervision has been taken over from the Hungarian Financial Supervisory Authority PSZAF by the Hungarian Central Bank in 2013. It introduced new prescriptions regarding the range of the LTV ratio (80-85 %) and the LTI ratio (maximum 60 %) in 2015 (Dötsch et al., 2018).

In the Netherlands, the Law on Financial Supervision, which regulates the supervision of financial institutions and the financial system, has been in place since 2006 and is adapted regularly. The Dutch Central Bank performs prudential supervision and the Netherlands Authority for the Financial Markets is responsible for supervising overall market operation and monitoring compliance. As a reaction to the financial crisis, the Netherlands also introduced a temporary regulation of the mortgage market in 2012. Like in Ireland and Hungary, the regulation places limits on LTI and LTV ratios. Until 2018, the permitted LTV ratio for house purchases will be further lowered to 100% (Haffner 2018).

Germany currently does not enforce maximum LTV and LTI ratios (Clerc-Renaud et al. 2018). However, LTV and LTI values are low compared to other countries, as lenders usually apply strict creditworthiness criteria (Case Study DE, 33). Macro-prudential supervision is carried out by the Financial Stability Commission, which was founded in 2013 (Schneider & Wagner, 2015; Clerc-Renaud et al., 2018). In March 2016, the EU Directive on mortgages has been transposed into German law.

Several countries engage in some form of mortgage guarantees, partly introduced already before the financial crisis. In 1993, the Netherlands established the National Mortgage Guarantee. This Guarantee, backed by the central government, guarantees for mortgages up to a certain house price limit in case of the owner's bankruptcy. To certain Dutch households subsidized loans are available for first-time buyers via the National Mortgage Guarantee (Haffner, 2018). In 2008 a mortgage guarantee was also introduced in the United Kingdom as part of the "Help to Buy scheme". It will presumably run out by the end of 2016. Besides this, the UK introduced several instruments as financial advice, financial assistance, mortgage rescue schemes or the "Homeowner Mortgage Support Scheme" (Sharma et al., 2018) in the aftermath of the crisis. Italy has recently introduced a similar fund for first-time home owners. In 2014, the First Home Mortgage Guarantee Fund with a budget of 650 million Euro entered into force. It offers mortgage guarantees for an estimated mortgage volume of 14 billion Euro. Furthermore, Italy is introducing a new personal bankruptcy law in order to improve consumer protection in the mortgage markets (Murro & Palmisano, 2018). Hungary's foreign currency crisis was a special issue, but caused similar efforts to protect borrowers, as e.g. a new regulation on LTI and LTV was

put into place or the National Asset Management Agency was established (Dötsch et al., 2018).

Taxation and Subsidies

Regarding tax treatment, the Netherlands and Ireland are taking steps to de-incentivize home ownership. The Netherlands have been phasing out tax advantages for mortgage holders since 2001. In addition, institutional changes make equity release through mortgage products less attractive. Currently, mortgage interest related to reverse mortgages is no longer income tax deductible (Haffne, 2018). Furthermore, the maximum rate of tax deduction for other types of mortgages will be continually reduced in the coming years. Nevertheless, like in Ireland, owner-occupation is still subsidized due to special treatment of imputed rents and savings in endowment mortgages.

In Ireland, the Housing Policy Statement of 2011 marked a striking policy shift away from the promotion and subsidization of home ownership. In the past, holders of qualifying mortgages profited from tax reliefs for mortgage interest, which are paid at the source by the mortgage providers in the form of reduced monthly payments. Mortgages taken out prior to 1st January 2004 and after December 31st 2012 are no longer eligible for the favorable tax treatment. The tax relief will be abolished for all loans after December 31st 2017 (Jaiyawala et al., 2018).

In Germany, tax relief on interest payments have already been removed. Interest tax deductibility is granted only for properties that are let out. Incentives for home-ownership exist mainly in the form of subsidized “Bauspar” schemes and the applicability of subsidies for personal “Riester pensions” to the formation of owner-occupied property (“Wohn-Riester”) (Clerc-Renaud et al., 2018).

Italy and Hungary are actively promoting new house purchases through fiscal measures. The main incentives relevant for the mortgage market are a result of a relatively active housing policy. Italians buying their first home can now benefit from smaller taxes and the deductibility of mortgage interest (Murro & Palmisano, 2018). While Hungary terminated tax relief on mortgage credit in 2007, the current government quite recently implemented two programs which provide fiscal incentives for home ownership. The home savings program allows persons with a Hungarian tax number to close a subsidized savings contract for the purpose of buying or renovating a home. Monthly payments are supported by 30% by the state (capped at a maximum of 72.000 HUF per year), with interest payments being exempt from the capital gains tax. In 2015, the Hungarian government also introduced the ‘Family Housing Allowance Program,’ a subsidy for acquiring or improving homes which is targeted at families with children. This measure also includes subsidies for housing loans (Dötsch et al., 2018).

To summarize, all kinds of regulations, tax measures and fiscal incentives in the six member states are significantly influenced by the impact of the global financial crisis. Most countries show efforts to protect mortgage lenders by the introduction of macro-prudential instruments (like regulated LTV ratios and LTI ratios), subsidies or mortgage guarantee funds. Generally speaking, regulations have gotten stricter and show a tendency to a “prescriptive regulation approach” (Elsinga, 2014, p 338). Regarding taxation and other fiscal incentives, we observe a tight link between housing policy and the mortgage market. The case studies reveal a de-incentivizing approach (as most likely in the Netherlands and Ireland), a nudging approach (as most likely in Hungary and Italy) (Elsinga, 2014, p 338) and a relatively neutral approach as in Germany.

5.2.2 Housing Market

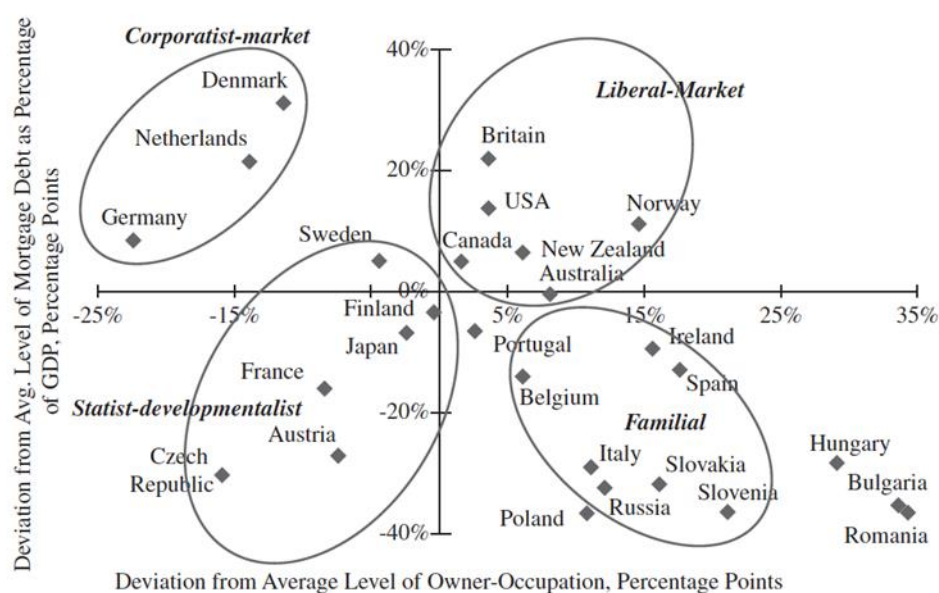
(1) Overview

A comparative analysis of the housing market as captured in our six case studies reveals at first glance – and in some respect similar to the analysis of the mortgage markets – more differences than similarities. Based on the case studies it is not possible to compile country groups. This is in line with the findings of the European Central Bank (ECB, 2003). The ECB describes housing markets in Europe as being “characterized by a wide variety of

policy interventions, in particular tax exemptions on particular types of housing-related investment or subsidies for housing-related activities” (ECB 2003, 35).

Schwartz and Seabrooke (2008; 2009) apply the varieties of capitalism approach to housing markets (“Varieties of Residential Capitalism in the International Economy”). They distinguish between four types of housing markets classified according to their deviation from the average level of mortgage debt as percentage of GDP on the one hand and from the average level of owner-occupation on the other hand (Schwartz & Seabrooke, 2008) (see Figure 11). According to this classification, the four types are the ‘corporatist market’, to which, in our case, the Netherlands and Germany belong; the ‘liberal market’ to which the United Kingdom belongs, and the ‘familial market’ to which Ireland, Hungary and Italy belong. None of the examined member states is in the group of the ‘statist-developmental’ market.

Figure 11: Varieties of residential capitalism



Source: Schwartz & Seabrooke (2008, p 244).

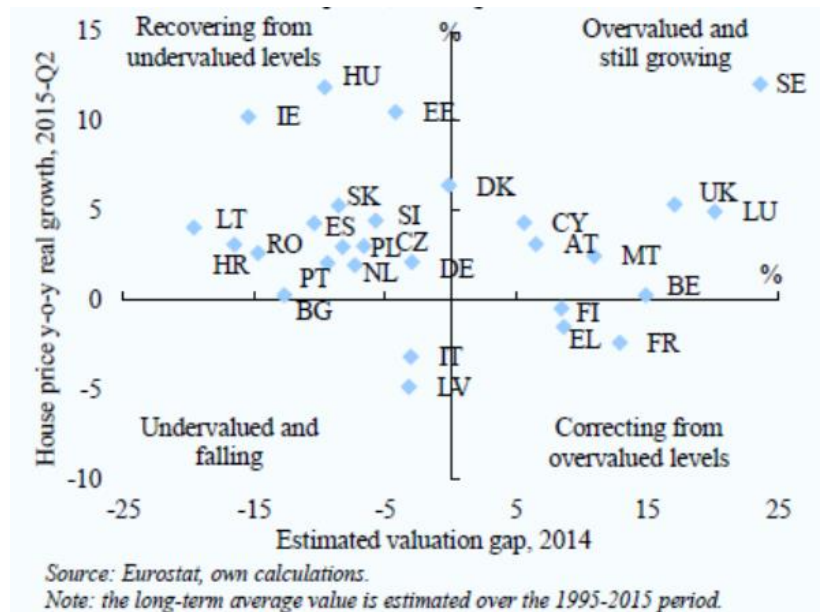
This differentiation provides a first hint at the general characteristics of the respective markets. It is an – albeit generalized – starting point for considering the potential of ERS:

“Subjectively, commodified markets with large numbers of indebted owner-occupiers are clearly liberal in nature, and people are likely to see housing as a form of investment to a greater degree than in systems dominated by socially provided rentals, where housing is more likely to be perceived as a social right, or in self-help systems where families build their own housing. Between the poles of housing as an investment vehicle and housing as an object of family consumption, mixed systems obviously have their own dynamics where housing is perceived as a social right. High levels of ownership but low commodification indicate a familialist mentality. By contrast, low levels of ownership are not necessarily associated with less market pressure on individuals, because renters do not necessarily have flexibility in their housing choices. The degree of commodification rises with rising mortgage debt, since debt service requires cash income” (Schwartz & Seabrooke, 2008, p 243).

However, while this very general approach may provide a starting point, it is still not sufficient for identifying the potential of equity release schemes in all member states. For the scope of our study, it therefore seems to be more useful to adopt a more detailed comparative perspective, focusing on the special characteristics of housing markets across Europe. As observed for the mortgage markets, the most important common feature of the six countries in regard to housing policies is the impact of the global financial crisis. Policy options and fiscal incentives are only comprehensible against this background. As

the European Commission states in its most recent survey, house prices are rebalancing in most EU countries (European Commission, 2016b). We can observe a general process of recovery. However, some disparities are growing. In some countries house prices are expected to rise from an already high level, while in other countries low prices are expected to decrease further. Figure 12 provides an overview of the pan-European situation regarding the development of house prices in the second quarter of 2015.

Figure 12: Housing Markets in the EU - clustering



Source: European Commission (2016a, p 57)

Across the six member states studied, the housing markets of Germany and the Netherlands are recovering from undervalued levels. This is also particularly notable for Ireland and Hungary. The Italian market is also estimated to be undervalued, however, it is assumed to be further falling. In contrast to that, the UK market is estimated to be overvalued, but it is still growing.

In general, this development may reinforce trends in the mortgage market through the collateral effect and the expected increase in residential investment (European Commission, 2016a, p 59). Yet, the future development certainly depends on the particular socio-economic conditions in each country. These are set out in detail in the single case studies. The following subsection summarizes the current situation, its causes and the respective key developments, while the final subsection focuses on the policy instruments applied.

(2) Current Situation and Key Developments

Owner-Occupation Rates

Home ownership plays an important role in Hungary and Italy. More than 90% of Hungarian households live in their own home, which is one of the highest rates in Europe. The Italian home ownership rate has decreased from around 80% in 2008/2009 to 73%, but remains relatively high compared to other Western European countries. The majority of houses in the Netherlands, Ireland, and the United Kingdom are also owner-occupied (65%, 70% and 63% respectively). In contrast to that, home ownership does not play such an important role in Germany. Only 42% of dwellings are owner-occupied; the majority of dwellings (52%) is used for renting.

Housing Prices and the Impact of the Global Financial Crisis

In the UK, house prices fell by around 15% in 2008/2009 and the number of property sales almost halved. The number of sales has since recovered and mortgage lending is on the

rise again. British banks are currently expanding back into riskier areas of lending with interest-only mortgages staging a comeback (Sharma et al., 2018).

Ireland experienced a housing bubble, fuelled by a construction boom in the 1990s and 2000s. When the bubble burst in 2008, house prices dropped to 50% from their peak values, the demand for houses collapsed, and the availability of credit was significantly reduced. The contraction of credit was particularly acute in the home-owner sector compared to buy-to-let mortgages. While Ireland saw steep price increases in 2014 and early 2015, house price inflation, particularly in Dublin, has markedly slowed down in the last months (Jaiyawala et al., 2018).

The housing market in Hungary was severely hit during the global financial crisis. House prices decreased dramatically and large parts of the population struggled with indebtedness in foreign currency. The process of recovery since 2008 was slow. Prices for second hand and new homes just started to rise in the last two years after five years of falling prices. In recent quarters, the Hungarian housing market displays a positive trend. Prices are increasing and the number of construction permits is on the rise. Building activity, nevertheless, remains markedly below pre-crisis levels and is concentrated in the central area around the capital Budapest (Dötsch et al., 2018).

In the Netherlands, construction of new housing plummeted during the financial and economic crisis, leading to an increasing shortage of housing. As recent changes in fiscal policy are not conducive to home ownership, the development of the Dutch housing market is expected to slow down further. The housing market seems to be on a slow process of recovery (Haffner, 2018).

Germany is the only country whose real estate and housing market remained relatively unaffected by the financial and economic crisis. It even turned out to be a stabilizing factor for the German economy. Germany did not experience a pre-crisis housing boom, which eventually bust as in the other countries. Real house prices in Germany had been falling throughout the pre-crisis decade. When prices plummeted in the rest of Europe, house prices in Germany began to rise. Overall, from 2003 to 2013, house prices increased by 17.2%. While house prices in Germany stagnated or even decreased in the years before the crisis and construction activity was weak, prices have started to grow at an accelerated pace since 2010, sparking concerns about a developing housing bubble. However, prices are still relatively low compared to other countries, with house price inflation being concentrated in the dynamically developing urban centres. The price-to-rent and price-to-income ratios have also started to increase since 2010. Until recently, however, nominal house prices did rise slower than disposable income (Clerc-Renaud et al., 2018).

In Italy house prices also did not immediately decline during the crisis, as the Italian housing market, which is predominantly made up of small owners, reacted rather rigid. Housing prices are still on the decline. Together with increased consumer confidence and fiscal incentives, however, the falling prices have led to an increase in mortgage demand (Murro & Palmisano, 2018).

Housing Shortages

All six countries experience or will soon experience housing shortages, especially in the low- and medium-income segments. Especially in the Netherlands, Ireland, and the United Kingdom households outnumber dwellings on-hand. In the United Kingdom, the number of new households has exceeded the number of homes built in every year since 2008. The number of repossessions has fallen in 2014, but with house prices on the rise, ownership becomes unaffordable for an increasing portion of the population. (Sharma et al., 2018). In the Netherlands, population growth in the four big cities of the Netherlands is expected to be more than average growth until 2040 (Haffner, 2018). Although public spending in the housing market has picked up since 2008 in Italy, there is, however, a shortage of social housing options, in particular since rents in the private sector have not decreased in step with income declines during the crisis. 2.5 million Italian families currently struggle with housing needs (Murro & Palmisano, 2018). In Ireland, the gap of housing supply is also widening, further reducing the availability of housing units both for buyers and renters. The shortage increases pressure on rent prices particularly in Dublin. Overall, rents have

now risen by an average of 32% since their lowest point in 2012 (Jaiyawala et al., 2018). Mortgage interest rates on the Hungarian market are momentarily at a historical low, making home purchases more affordable. However, the average house prices increased stronger than the average income. In Germany, the availability of affordable rental dwellings in cities poses a serious problem, with an estimated shortage of 250 000 dwellings visible in particular in the social housing sector. Although the German population is declining, the total number of households is expected to increase until 2025, as more people are living in one-person households. The government is addressing the housing shortfall by subsidizing micro-housing and rezoning federal land for housing purposes (Clerc-Renaud et al., 2018; DB Research, 2015). In order to provide affordable rental housing, a rent cap has been introduced.

Regional Disparities

The housing market in all six countries shows regional disparities. In British rural areas, 74 % of households occupied their own home in 2011; in urban areas this was true for only 61% of households. Demand for housing is high in urban centres, and has led to rising prices especially in London and the South East (Sharma et al., 2018). Hungary shows the same pattern, with housing prices being the most dynamic in the capital (KSH, 2016, p 2f). In the Netherlands, too, the four largest cities (Amsterdam, Rotterdam, Utrecht, The Hague) are expected to experience above average growth (Haffner, 2018). Interestingly, in Ireland housing demand has recently shifted from Dublin to other areas. In 2015, house price inflation in Dublin was markedly lower than the national average (Jaiyawala et al., 2018). In Germany, some cities, particularly metropolitan centres such as Frankfurt and Munich and other cities in the South, are growing, while many cities in East Germany and the old industrial areas of West Germany are losing population. While home ownership rates are still higher in rural areas, an increasing percentage of newly bought dwellings is located in cities (70% of bought dwellings in the period from 2004-2011) (Clerc-Renaud et al., 2018). The situation in Italy is characterized both by migration from the countryside and mountain areas to cities and by migration from the South to the North. Within urban areas, territorial divides are developing. Rented houses are mainly located in the poorest areas of the cities and, as the rent problem is particularly acute in cities, many families are moving to the suburbs (Murro & Palmisano, 2018).

(3) Policy Instruments

Key Trends

Housing policies among the six member states vary with respect to the importance attached to it by policy-makers, the division of responsibilities, and the focus on social problems. In Italy housing policy is, as shown in the case study, not a priority. On the one hand the tenancy market has been liberalized in the 1990s, on the other hand public construction has been limited. In 2007, Italy established a social housing policy, which is, however, not sufficiently developed yet to tackle the problems in the housing market described. As housing policy is regarded to be a part of the welfare system, the central state defines policy, coordinates the work of the regions, and ensures minimum standards of housing for the poorest parts of the population (Murro & Palmisano, 2018). Similarly, Germany's social housing policy focuses on bottlenecks of the supply for lower income groups, especially in the growing cities (Clerc-Renaud et al., 2018). In Ireland, there is a bigger emphasis on housing since the mid-1990s, when the social housing policy document was published (Jaiyawala et al., 2018). Its aim was to enable adequate and affordable residence for all households. Among other objectives, home ownership was promoted. Obviously, housing has become more important, since the constitution included the right to housing in 2014. In the Netherlands, there is no constitutional right to housing, but encouraging an adequate housing supply belongs to the responsibilities of the government. Similarly, there is no constitutional right for housing in Hungary, but there is a dynamically developing housing policy which applies a number of instruments to further additional objectives, too (Dötsch et al., 2018). Like in the Netherlands and in Hungary, the government of the United Kingdom has no binding legal duty to guarantee shelter and access to adequate housing. Nevertheless, there are some relevant policy measures in this respect. The Homes and Communities Agency is a non-departmental government body,

which works to create homes and to promote economic growth and jobs. To this end, it provides investment, regulates housing associations, and helps to secure private investment (Sharma et al., 2018).

Regarding their housing policy, the six member states show a different division of responsibilities. In most of the countries, the central government provides the policy framework as in Hungary and Germany. In Italy, competences in housing policy are mainly on the regional level. Policy targets are set on the level of the regions, while municipalities ensure their own urban planning and public housing, realized by public-private partnerships (Murro & Palmisano, 2018). In most of the countries, problems of social housing are treated at the level of the municipalities or local authorities, as for example in Germany (Clerc-Renaud et al., 2018).

Fiscal Incentives

Regarding fiscal incentives for home ownership several countries have developed programs for subsidizing the acquisition of new homes or for renovating and enlarging private property. Subsidies are also targeted to low-income groups, first-time buyers for adopting energy-efficient construction.

Primarily, Hungary and Germany show attractive housing savings instruments. Hungary had provided subsidies for housing loans for more than one decade. The latest means of state subsidy, the Family Housing Allowance Program, focusses on young families with children and is hence a kind of first-time buyer subsidy. Subsidies are also granted with the aim to support the construction industry. An important instrument is the subsidization of housing saving contracts since the 1990s ("lakástakarék") (Dötsch et al., 2018).

In Germany, the main instruments are social housing subsidies and direct housing allowances. Germany provides a so-called "Riester" subsidy for savings with the aim of buying a home – primarily with the objective of promoting old-age security too, if a minimum of 4% of the total income is used for this purpose. Furthermore, there are different forms of subsidization for savings as payments of premiums under housing savings contracts, an employee savings bonus as well as different regional programs. In Germany, there are also subsidized housing loans for social reasons and for energy-efficient constructions, as it is also the case in Hungary (Clerc-Renaud et al., 2018).

Italy provides different forms of state subsidies for households with temporary financial difficulties as well as a state guarantee of 50% for outstanding mortgage debt for first-time buyers. In addition, there are also subsidies for renovation and improvement as well as soft loans "for the purchase and improvement of energy efficiency". This form of subsidy supports in particular young couples, disabled people, and households with many members (Murro & Palmisano, 2018).

The United Kingdom focuses on first-time buyers in a similar fashion. The "Help to Buy scheme" (announced in 2013) "(...) is designed to help anyone struggling to have a deposit for their first home or move up the property ladder as they have limited equity". The scheme is composed of two parts, an equity loan scheme (available until 2020) and a mortgage guarantee (scheduled to end in 2016). Furthermore, there is the "Get Britain Building" investment fund to complete stalling development sites (two rounds of bids in 2012) and the Local Infrastructure Fund. The "intermediate market", usually provided by housing associations but also run by private developers is an instrument to ease access to home ownership by models of shared ownership or shared-equity (Sharma et al., 2018).

In Ireland, there are "many forms of subsidization or grants available for those in need", first of all to help lower-income households. However, the "affordable housing schemes" have been abolished in 2011. Local authorities assess the eligibility of applicants. It is a particularity of Ireland that local authorities have to provide housing for older people, which is not the case in the other five countries of our sample (Jaiyawala et al., 2018).

Since 2012, austerity measures affect housing policies in the Netherlands although subsidized mortgage loans have positive effects on home ownership. For example, there is a stepwise limitation of mortgage interest deduction and a decrease of LTV: "With the

exception of the 'favorable' income tax treatment of owner-occupied housing, there are no general housing subsidies available" (Haffner, 2018).

Taxation

Tax treatment is one of the most important policy areas in housing. Taxation is very similar in the six member states as Table 18 shows. It provides an overview of the information given in the case studies. Insofar as the case studies record tax incentives or tax exemptions, they are marked with an asterisk in the cells of Table 18. We show for four periods in the 'lifecycle' of homeownership whether the owner-occupied dwelling might be treated favourable in comparison to the 'normal' tax treatment. Where possible, we distinguish whether the favourable treatment is restricted to homeownership alone (in contrast to other dwellings, property or wealth) or not.

Similar types of taxes can be observed in the six countries of our sample. At the time of acquisition, Hungary sets tax incentives with the aim to promote the construction industry, to incentivize an improvement of the housing stock, and to support the middle-income groups. There is a tax exemption for the acquisition of newly built flats up to a price of 15 million HUF. This exemption is valid for persons under the age of 35 years acquiring new property if its value is below 15 million HUF. Italy applies a register tax for houses instead of VAT. For the acquisition of the first house, the register tax is reduced by 2 or 3%. Germany applies no VAT on the acquisition of new dwellings by private individuals. Ireland does not apply VAT by the acquisition of second-hand property.

Table 18: Taxation of housing property

	Country					
Tax due	Germany	Hungary	Ireland	Italy	Netherlands	United Kingdom
at the time of acquisition	<ul style="list-style-type: none"> Property acquisition tax ranges from 3.5% to 5% depending on the state (reference amount is “standard value”, not market value) 	<ul style="list-style-type: none"> 4 % duty on quid pro quo transfer of the purchase price, plus 2% if the market value is more than one billion HUF * 	<ul style="list-style-type: none"> Stamp duty on property purchase, first £ 1,000,000 1%, excess over £ 1,000,000 2% 	<ul style="list-style-type: none"> Registration duty; fixed legal transmission tax; 	<ul style="list-style-type: none"> 2% transfer tax to acquisition of not-newly built building 	<ul style="list-style-type: none"> Stamp duty on property values over £ 125,000-250,000: 2%; £ 250,001-925,000 5%; 925,001-1,500,000; 10%, Over 1,5 million: 12%
during ownership	<ul style="list-style-type: none"> Council tax annual property tax: 0.35% of the property value multiplied by a multiplier defined by the municipality 	<ul style="list-style-type: none"> Local tax; calculated by the municipalities, maximum is annually 1100 HUF per square meter; or 4 % based on the adjusted market value of the building 	<ul style="list-style-type: none"> Local property tax, based on market value bands; basic rate 0.18% under € 1 million, 0.25% over 1 million; can increase by up to 15% 	<ul style="list-style-type: none"> IMU (annual property tax on the real estate properties from the secondary order on)* Personal income tax* 	<ul style="list-style-type: none"> Income tax: Imputed rent taxation is maximized to amount of mortgage interest deduction. When mortgage is repaid, there is no longer imputed rent taxation Municipal property tax 	<ul style="list-style-type: none"> Council tax depending on value of property as well as council area
at the end of occupancy	<ul style="list-style-type: none"> Capital gains tax; option to deduct each year over a span of 50 years about 2% of the purchase price for depreciation 	<ul style="list-style-type: none"> 16% personal income tax on difference between purchase price and selling price* Capital gains tax, gradually reduced with each year after acquisition, free after 5 years 	<ul style="list-style-type: none"> Capital gains tax*; First € 1,270 of an individual's annual gains is exempt 	<ul style="list-style-type: none"> Capital gains tax (if sale takes place less than 5 years after acquisition) 	<ul style="list-style-type: none"> No capital gains tax 	<ul style="list-style-type: none"> Capital gains tax*
at inheritance	<ul style="list-style-type: none"> Inheritance tax; amount depends on the assessment of the property assets according to the Valuation Act 	<ul style="list-style-type: none"> Inheritance tax* 	<ul style="list-style-type: none"> Inheritance tax* 	<ul style="list-style-type: none"> Inheritance tax 	<ul style="list-style-type: none"> Inheritance tax 	<ul style="list-style-type: none"> Inheritance tax* on properties worth more than £ 325,000

*Tax incentives/exemptions; abbreviations according to the case studies

Source: Own compilation based on country case studies in Eckardt et al. (2018).

As the European Commission (2014, p 27) states, “property taxes affect market participants’ incentives to buy, rent, invest or build dwellings”. During the ownership phase income tax is levied only in some countries, while property taxes are levied in all countries. Regarding this, only Italy and Germany set tax incentives. In Italy there are exemptions from primary income tax during ownership. In Germany, there is a VAT exemption for renting and leasing, which is not applicable to owner-occupiers. The German housing tax and subsidy system can be considered relatively tenure neutral with subsidies for home-ownership being lower than in other countries. Owner-occupied homes are treated as consumption goods for tax purposes (Clerc-Renaud et al., 2018), which implies no imputed rent taxation on the one hand, and no cost deduction on the other hand. Only two member states levy taxes on imputed rents: the Netherlands for the main dwelling, and Italy for any other dwelling (European Commission, 2014, p 28).

If ownership ends by selling one’s property, capital gains taxes might be imposed. This is the case in all the countries covered in our study with the exception of the Netherlands. In Germany, the vendor has the option to deduct about 2% of the purchase price for depreciation each year over a period of 50 years (Clerc-Renaud et al., 2018). Similarly, in Hungary, capital gains tax is gradually reduced with each year after acquisition, the gain from sales of property is tax free after 5 years (Dötsch et al., 2018). The tax base for the capital gains tax can be reduced with expenditure items connected to the property such as renovation costs. In Italy, no capital gains tax is levied if the sale takes place less than 5 years after acquisition (Murro & Palmisano, 2018). In the United Kingdom, there is an exemption from capital gains tax if the purchased home was used continuously for owner-occupation, no part of the home has been let out (this does not include a single lodger), no part of the home was used for business only, the house is less than 5,000 square meters, and was not sold for personal gain (Sharma et al., 2018). In Ireland gains of the disposal of property which was self-occupied or by a dependent relative as a sole or main residence is exempt from capital gains tax. The first EUR 1,270 of an individual’s annual gain is generally exempt from taxation (Jaiyawala et al., 2018).

Taxation of inheriting housing property is also important from the point of view of investing in housing property. Tax reliefs in case of inheritance facilitate intergenerational transfers and hence incentivize to build up housing property. In Hungary, there is an exemption of inheritance tax for linear relatives and spouses. In Germany, “transaction of (co-) ownership of premises to spouses, civil partners or children is exempted from taxation provided that the premises include residential space that is used by the acquiring person for own residential purposes”. There are general franchises for family members (Clerc-Renaud et al., 2018): “(S)pouses and civil partners have a tax-free amount of EUR 500,000 available, whereas the children have an amount of EUR 400,000 and the grandchildren an amount of EUR 200,000 available” (ibid). In some countries, inheritance tax is levied from a minimum level, as in the Netherlands, which shows an exemption from inheritance tax for the partner over an amount of 635,000 Euro and over 2,000 Euro for another heir “outside (grand)children and parents). The six tax rates depend on two amounts (lower and higher) and the relation of the recipient with the deceased (10% or 20% for the partner and 30% or 40% for another heir)” (Haffner, 2018). Inheritance tax in the United Kingdom is levied from a minimum level of properties worth more than £ 325,000 (Sharma et al., 2018). In Ireland, the “surviving spouse or surviving civil partners taking an inheritance is completely exempt irrespective of the value of an inheritance. Inheritance tax is nil up to the ‘tax free’ threshold amount (based on certain relationships between testator and receiver) and remainder is charged at 33%” (Jaiyawala et al., 2018). Only Italy shows no exemptions from inheritance tax (Murro & Palmisano, 2018).

As can be observed from Table 18 and the description above, tax incentives are a complex matter. Setting up a thorough evaluation goes beyond the scope of this paper. However, the European Commission (2014, p 28) has already built an index to capture the property-tax incentives in Europe: a “Composite index of tax incentives for owner-occupied housing”. It combines three categories of housing-related tax instruments, which covers transaction taxes, recurrent property taxes and mortgage interest tax reliefs. The latest data are depicted in Table 19. According to this index, tax incentives for owner-occupation in Italy and the United Kingdom are graded as low, in Germany, Hungary and Ireland as

medium and in the Netherlands as high. Overall, the European Commission (2014, p 29) observes a “shift towards less favorable tax treatment of ownership”.

Table 19: The composite index of tax incentives for owner-occupied housing in the EU

2011	Composite Tax Index	Incentives	Latest data (2012-2013) (2)	Composite Tax Index	Incentives
France	0.0	None	France	0.0	None
Cyprus	0.6	Low	Greece	0.0	None
Belgium	0.8	Medium	Spain	0.0	None
Greece	0.8	Medium	Italy	0.4	Low
Italy	0.8	Medium	Cyprus	0.6	Low
Latvia	0.8	Medium	Portugal	0.6	Low
Spain	0.8	Medium	Belgium	0.5	Medium
Austria	1.0	Medium	Ireland	0.8	Medium
Germany	1.0	Medium	Latvia	0.8	Medium
Portugal	1.0	Medium	Slovenia	0.8	Medium
Ireland	1.2	Medium	Austria	1.0	Medium
Luxembourg	1.2	Medium	Germany	1.0	Medium
Slovenia	1.2	Medium	Luxembourg	1.2	Medium
Malta	1.4	High	Finland	1.4	High
Slovakia	1.4	High	Malta	1.4	High
Netherlands	1.6	High	Slovakia	1.4	High
Estonia	1.8	High	Estonia	1.8	High
Finland	1.8	High	Netherlands	2.0	High
p.m.: non EA			p.m.: non EA		
UK	0.4	Low	UK	0.2	Low
Poland	0.6	Low	Poland	0.6	Low
Romania	0.6	Low	Romania	0.6	Low
Hungary	1.2	Medium	Denmark	1.2	Medium
Lithuania	1.4	High	Hungary	1.2	Medium
Denmark	1.6	High	Czech Republic	1.4	High
Bulgaria	1.8	High	Lithuania	1.4	High
Czech Republic	2.0	High	Bulgaria	1.8	High
Sweden	2.0	High	Sweden	2.0	High
Croatia	n.a.	n.a.	Croatia	n.a.	n.a.

Source: European Commission (2014, p 29). The index is a weighted average of tax incentive scores for transaction tax, recurrent property taxes and mortgage interest tax relief. (2) Latest data for recurrent taxes: 2012.

In summary, similar taxes can be distinguished in the survey countries that possibly affect individual decision-making around homeownership and mortgage loans. However, tax incentives are embedded in a complex setting with contradictory elements. Therefore, no overall conclusions on the direction and magnitude of the incentives set can be drawn, as it is the case with tax incentives intended to promote additional personal old-age security.

5.3 Identified Country Best Practices for Integrating Property with Private Pensions

5.3.1 Private Pensions Policy

Germany

Personal pension schemes are subsidized by the state for the accumulation of both financial assets and owner-occupied real property for retirement (Riester and Rürup pension plans). In the context of the Riester home subsidy, tax benefits are provided to savings contributions and loan repayments. Therefore, reverse mortgages may apply for this subsidy. If the owner sells or leaves the residential property, he or she may invest the remaining funds into an alternative real estate or into a certified pension contract. The

subsidized private pensions are protected, which implies that the person subscribing to it has some guarantee as to the pension benefit generated by it.

Ireland

Ireland operates an exempt/exempt/taxed (EET) model whereby pension contributions into pension funds are tax deductible and investment income within pension funds are also exempt from tax. Although, income tax is charged upon premature withdrawal of the funds, the lump sum payment allowable upon retirement is again tax-free. Thus, OECD acknowledged that the EET model in Ireland has proved to be more like an “exempt-exempt-exempt” (EEE) system where income channelled through pensions is unlikely to be taxed at any point of the life-cycle (Larragy, 2013). From the late 1990s, the Irish government implemented policies to provide more fiscal incentives to encourage investment in private pensions which resulted in a rapid increase in tax outflow for the state. 15-40% of net applicable earning, if invested in the private pensions, qualifies for the tax relief. The similar fiscal incentive could be extended to the ERS products if they are to be formed as a part of pensions. However, it should be noted that such fiscal incentives are already forming a significant proportion of GDP. With the net replacement rates for mandatory pension programmes for Ireland (41%) far below the EU median (71%), there lies a material risk of pension poverty in Ireland, which could favorably support ERS products

Italy

PIPs (Individual Pension Plans) represent the best practice within the sphere of supplementary pension schemes, both in terms of coverage and returns. In 2013, the total assets amounted to 13,014 million euro and the number of members to 2,134,038. PIPs appear to be the most increasing pension schemes in terms of number of subscriptions, passing from 486,017 in 2007 to 2,134,038 in 2013, composed mostly by individuals aged between 35 and 54. In terms of returns, during the first years, PIPs performed worse than the other supplementary schemes; however, they soon started to improve. On a five-year horizon, the return of a PIP of the second type has been on average 4.9, while the return of a PIP of the first type has been on average 3.2. In 2014, the return of a PIP of a second type has been 6.8 and 2.9 for a PIP of the first type. Although PIPs remain the most expensive supplementary scheme, their average costs went from 3.5 in 2013 to 1.5 in 2014.

The supplementary pension system benefits of three main fiscal incentives that are the same for all kinds of pension schemes in the second and third pillar. The first incentive concerns the contributions and consists of a tax deduction from the imposable income of the contributions paid, up to 5,165 Euro each year. The second incentive concerns the performance. A tax rate of 20% of the return during the accumulation period is applied, which is lower than the 26% generally applied to the return of other forms of assets. The last incentive concerns the supply of the supplementary pension. In this case, a personal income tax rate between 9% and 15% of the benefit is imposed at the moment of the annuity collection. It is 15% for the first 15 years, from the 16th year it decreases by 0.3 percentage points for each year of subscription, up to a maximum of 6 percentage points. With at least 35 years of participation, the tax rate is then 9%. The tax is imposed only on the part of the annuity that derives from the contributions paid; it is not applied on the part of the annuity that derives from the returns of the investment. By contrast, public pensions are entirely encompassed in the tax base of the personal income tax, with a no tax area up to 7,500 Euro per year.

The Netherlands

The Dutch pension system has been considered a strong system in terms of adequacy (Haffner, 2016). Most households quasi-mandatorily save via occupational pension schemes (second pillar) and there is also a public pension available (AOW) which is not means-tested, but dependent on 50 years of residence in the Netherlands (first pillar). The net replacement rate amounts to 95.7% in 2014. However, more recently the sustainability of the system has come under scrutiny, as sufficient retirement income for future generations of elderly may be endangered in the first two pillars of the pension system.

The public pension (AOW) is considered a minimum (minimum wage level). Retirement age is slowly being increased from 65 to 67 years of age. In the second pillar moves have been made towards a structurally lower pension which will be the result from lower tax-favored pension saving than in the past. The coverage rate of pension funds of the second pillar has become a problem also because of the very low interest rate. Retirement incomes are then not being indexed with inflation. It is estimated that to be able to pay all future pensions, about 400 billion Euros (70% of GDP) are needed. On the other hand, the balance estimate of net wealth of households amounted to 411% of GDP in 2011. The tax-favored products of the third pillar of the pension system have been restricted throughout the years and can nowadays only be used in the situation where tax authorities identify a pension gap.

The United Kingdom

Occupational pensions in the UK are defined contribution (DC) or defined benefit (DB) but most of the latter are being closed to new entrants. The number of DB schemes in deficit at the end of December 2015 was 4,679, representing 78.7 per cent of the total 5,945 defined benefit schemes. Under the 2008 Pensions Act, all eligible employees aged 22 or over and below State Pension Age will be automatically enrolled into a qualifying workplace pension scheme. Automatic enrolment has been rolled out to all workplaces between October 2012 and September 2016 beginning first with the larger companies. The other major change to the pensions system in recent years has been that people aged 55 and over are now allowed to take their retirement pots how they want rather than being required to buy an annuity retirement income - introduced in 2015. In July 2015, the UK government launched a new consultation on pension tax relief amid concerns about the cost of pensions' tax relief. Any resulting legislation is likely to reduce tax reliefs enjoyed by higher rate taxpayers. Such a change would make accumulating pension wealth through housing more attractive at least for these individuals as the fiscal treatment of pensions would then be similar to the fiscal treatment of housing equity i.e. 'Taxed-exempt-taxed'.

5.3.2 Housing Market and Housing Policy

Germany

The current German housing tax and subsidy system is more or less tenure neutral. With no support of the mortgage and credit market in general, subsidies for homeownership are much lower than in most other countries, and the main fiscal incentives that exist are associated with the home savings (Bauspar) schemes. Owner-occupied homes are treated as consumption goods for tax purposes, so no deduction of mortgage interest is possible, although interest tax deductibility exists for properties that are let out as these can be offset with the rental income generated by this 'business'. This policy has fostered investment in housing creating a well-developed rental market with high-quality rental apartments. This in combination with a functioning public rental system (until the 1990s) has not created conditions of necessity for Germans to buy or build a house as a strategy for old-age pension provision.

Hungary

Due to the transition process from its former socialist past Hungary has a comparatively high ratio of residential property. Generally, this may be a good basis for equity release programs. The current policy measures which focus mainly on families with children (like the "Family Housing Allowance Program" or support for housing loans) will probably harden this structure of a high ratio of residential property. Overall, the Hungarian housing policy favours building up housing property. With regard to the pension system and the equity release market, this is still far away from being a "best practice" regarding equity release schemes. But the given structure and traditional policy may work as the basis for such products at a later time.

Ireland

Since the 1920s Irish Government housing policy has largely centered upon increasing the supply of housing through the use of subsidies available to Local Authorities and private

builders. Subsidisation and taxation policy has been consistently directed towards promoting home ownership, which resulted in the high and growing owner occupier sector and declining rented sector, over the many years. Ireland's housing stock is well-known internationally for its high number of detached houses, which are often one-off housing units located in rural areas, and a low number of flats or apartments. Census 2011 revealed that 87% of residential properties were houses, while only 9% were apartments at the time of the census. This is in sharp contrast to the general housing stock trends across the EU where flats or apartments are more prevalent. Nonetheless, this has resulted in many older people having a larger space with unproductive use.

Italy

Home-ownership is the distinguishing feature of the Italian housing market. Italy has, in fact, the highest home-ownership rate among the richest countries in EU. Several aspects contribute to make this a peculiarity of this country. Among them, there are some political factors, mainly represented by the introduction of the right of redemption, by fiscal incentives for buying flats, and by the provision of bank loans more favourable to buyers of their first dwelling. Finally, several statutes allowed urban buildings belonging to the state and other public entities properties – especially, properties used as offices or employees' dwellings of several public entities - to be put on the market for financial reasons. The recent economic crisis has made home-ownership less affordable for poor and middle-class Italian households. Nevertheless, in 2014 the housing market has improved its performance after seven years of contraction.

Several fiscal incentives have been introduced in Italy in order to support home-ownership. Two are the most important. The first concerns the lower taxes that are paid for the purchase of the first house. A second fiscal benefit is represented by the deductions of the mortgage interests on the first house, up to 19%, of the attendant charges, and of the share of reevaluation paid to the bank. The maximum amount of the deduction is 4,000 Euro per year. These benefits hold from the date of purchase and within two years if the dwelling is subject to renovation works. It is possible to benefit from them also if the mortgage is subscribed before or after the purchase, but within a limit of 12 months, and if it becomes the principal dwelling within one year from the purchase.

The Netherlands

The Netherlands has the largest social rental sector in the European Union (Haffner, 2016). It delivers good quality and affordable rental housing for broad layers of the population, as was the policy aim (Haffner et al., 2014). Construction of social renting was used as an instrument of short-term economic policy to stimulate the economy. However, since the 1970s, policy steered lower income households with the rent allowances towards renting, while homeowners with a higher income were attracted by the favourable tax treatment of homeownership; especially in the period of (steeply) rising house prices in the last 15 years of the last century (Haffner & Boumeester, 2015). Moreover, since 2010, national government policy is steering towards a more marginalized social rental sector based on income, while access to homeownership (in cities) no longer seems to be evident, considering inter alia a more mobile workforce and a shrinking population in parts of the country.

In short, in the past the social rental sector was considered as an acceptable housing option for many households and a move towards homeownership and the opening up of the possibility for an equity release option was not considered as a must. In the future neither the social rental sector nor homeownership may be as accessible to households as they used to be, also limiting the options of equity release. Nevertheless, the owner-occupied dwelling usually is considered as being treated preferentially in income tax. However, such a statement depends on the type of subsidy benchmark applied (Haffner, 2016; Haffner & Winters, 2016; European Commission, 2014; Haffner & Heylen, 2014; Haffner et al., 2014; Van den Noord, 2005). The tax expenditure benchmark that the Dutch government is applying, leads to a relatively low income tax subsidy for homeownership. Inherently inconsistent in income tax, however, is the fact that the owner-occupied dwelling is treated as an (incomplete) investment good for as long as the mortgage costs can be deducted

and as a consumption good thereafter. The homeowner profits from a cost deduction and a relatively low (non-economic) value of imputed rent in the former case and from non-taxation in the latter case.

The United Kingdom

The financial crisis in 2008 had a significant effect on the housing market, with house prices falling in the UK as a whole around 15% from January 2008 to March 2009. In addition to this, the number of property sales in the UK almost halved from a peak of 1.67 million in 2006 to 0.86 million in 2009. Since then, the number of sales has recovered somewhat and reached 1.07 million in 2013. In recent years, the UK Government has pursued a number of high profile housing policies including the Local Infrastructure Fund and the Get Britain Building investment fund which both aim to boost the house building rate. The Help to Buy scheme has also proved popular and aids first time buyers onto the property ladder, while allowing some who already own homes to buy a more expensive property (ONS, 2014). Housing demand has outstripped supply and has led to rising prices particularly in London and the South East. Demand is being generated by rising life expectancy, immigration and the growing number of one-person households (Commons Library, 2015a and 2015b). Low interest rates and real wage growth have sustained demand despite rising prices. The lack of supply is blamed on planning restrictions designed to protect the Green Belt (CIH, 2015). High UK house prices (particularly in South East) and the high level of homeownership are conducive to the development of the ERS market. First-time buyers are finding it more difficult to get on to the property ladder but homeownership is still an aspiration for the majority of people. Government policy has focused on increasing demand but has done little to address planning restrictions on housing supply. Homeownership levels are thus expected to continue to decline. Any reduction in Stamp duty, Capital Gains Tax or Inheritance Tax would make saving for retirement by means of housing more attractive.

5.3.3 Mortgage Market and Mortgage Policy

Germany

Germany is the only country whose real estate and housing market remained relatively unaffected by the financial and economic crisis. The German conservative mortgage lending habits manifest themselves in mortgage market characteristics such as moderate average LTV ratios and low proportion of adjustable-rate loans. The use of credit database screening, general lender focus on avoiding debtor payment difficulties through strict credit quality and debtor capital adequacy requirements mean that high-risk loans are an exception in the German market. The generalized high standard of personal creditworthiness required from mortgage borrowers fosters good credit quality as does the way mortgage lending values are calculated (i.e. reliant on the long-term sustainable characteristics of the property). The trade-off for such conservative lending is nevertheless a corresponding weaker or more generally restricted access to mortgage loans for households (reflected in the lower homeownership rates in Germany). A further example of better practice in Germany is the role played by promotional banks (the KfW and potentially its state equivalents) that facilitate credit to households on favorable terms for loans with the exclusive purpose of energy efficiency renovations and age-conform restructurings of existing buildings. While such schemes may compete with the attractiveness of ERS options for elderly consumers wanting to renovate their property, the key difference is that they are conventional loans requiring repayment throughout their duration.

Hungary

The current Hungarian policy measures regarding mortgages favour families with children, with state aid for housing loans being provided. On the one hand the current policy creates an environment that stimulates home ownership by several incentives. This may provide greater long-term stability on the mortgage markets. On the other hand new regulations currently restrict the possibilities of the supply side to engage in new product types.

Ireland

Irish law has provided for tax relief on mortgage interest on a home loan as a part of fiscal incentives to encourage home ownership. The tax relief has been available for interest paid on a new mortgage for buying a home, a top up loan for development or improvement in the home, a re-mortgage or a consolidation of existing qualifying loans, secured on a home (Revenue, 2016). Since 1st January 2002, the relief is paid at source (called TRS) by the mortgage provider in a form of reduced monthly mortgage instalment. It is interesting to note that no taxable income is required to qualify for the mortgage interest relief. Mortgages taken out after 31st December 2012 do not qualify for mortgage interest relief as interest relief on mortgages is expected to be abolished entirely after 31 December 2017. However, this is an evolving scenario with each annual government budget having the potential to vary this incentive.

Also more restricted mortgage lending rules are in place which is making ERS less likely for the future by making access to property ownership harder for future aspirational consumers. Between 2003 and 2010, the majority of borrowers had their credit availability determined by the Loan to Income ratio (LTI) which often resulted into 100 per cent Loan to value (LTV) mortgages. In 2015, a limit has been imposed on LTV (70-90%, depending on buyer type and property value) and LTI (3.5 times) ratio under macro-prudential policy (MPP) to restrict the mortgage credit. These new rules have made the property out of reach for many first-time buyers, especially in the capital city (Dublin), due to restricted lending as well as insufficient income.

The Netherlands

The Netherlands implements a National Mortgage Guarantee (Nationale Hypotheekgarantie; NHG). The guarantee is for the repayment of mortgage loans to the financial institution up to a certain limit in house price, if an owner-occupier goes bankrupt (see Haffner, 2016). The possibility to transfer the mortgage loan from the old to the new house, high LTVs and a high ratio of residential mortgage debt to GDP, as is the case for the Netherlands, may indicate that a mortgage market is mature. As with the determination of the level of subsidisation, such a statement will depend on the benchmark applied. For example, Chiuri & Jappelli (2010) draw on a mortgage market regulation index produced by Tsatsaronis & Zhu (2004) and argue that mature mortgage markets can be characterised by: variable interest rate loans, a variety of mortgage equity withdrawal options, high loan-to-value mortgages and property valuation at market values (Haffner et al., 2015; see also Ong et al., 2013). The IMF (2008) uses a mortgage market index based on the structural characteristics of housing finance systems. The index is based on the extent of mortgage equity withdrawal, loan-to-value ratios, typical loan terms, and issues of covered bonds and mortgage-backed securities. Generally, the Netherlands will be ranked as having a more mature mortgage market rather than not. However, as the GFC has shown, the Netherlands had become too dependent on the financial systems and so-called system banks (Haffner et al., 2014). Extensive mortgage lending had to become more prudential (Haffner, 2016). The Minister of Finance introduced the Temporary Regulation for Mortgage Credit (Tijdelijke regeling hypotheekair krediet) on 12 December 2012. It regulates the income criteria for mortgage credit (LTI), as well as the maximum LTVs (Boelhouwer & Schiffer, 2015). The former aims to prevent affordability problems; the latter excessive lending and related risk of negative equity. Therefore, they both were set more strictly than before (in due course).

5.3.4 Equity Release Scheme Policy

The United Kingdom

Of our 6 EU Member State case study countries, only one, the UK has a developed equity release scheme market. The market for equity release products is more developed in the UK than elsewhere in Europe. These products are primarily of two forms – loan model ERS and sale model ERS. The loan model ERS, which is also known as a lifetime mortgage permits homeowners to borrow money against the value of their property, without losing their ownership. The UK ERS market has different types of lifetime mortgage products –

lump-sum, drawdown, fixed repayment mortgage, interest repayment and enhanced lifetime mortgages. In a sale model, homeowners convert their house to cash by selling a part of or the entire property to the ERS provider but keep their rights to live in the house. Sale model ERS are also referred to as home reversion schemes. Lifetime mortgages are by far the most popular form of ERS in UK and in recent years, drawdown plans have become more popular than any other equity release schemes. . In drawdown plans, the customer has the flexibility to withdraw an initial amount and draw down the remaining cash as and when required. Latest findings by the Equity Release Council (ERC) show that seven in ten new ERS plans agreed in the fourth quarter of 2015 were drawdown plans (ERC, 2015).

The Financial Conduct Authority (FCA) regulates firms advising or selling equity release schemes. These firms are expected to have relevant qualifications to operate as ERS providers or advisers and have to meet certain standards set up by the regulator. The Equity Release Council (ERC) is the industry body for the equity release sector. ERC is an expansion of the SHIP (formerly Safe Home Income Plans) and is a representative body of the providers, qualified financial advisors, lawyers, intermediaries and surveyors who work in this sector. The Council and its members are responsible to ensure that customers can safely use this form of borrowing to support their retirement income. They are also responsible to promote public and political awareness on ERS as a solution to many of the financial challenges affecting people over the age of 55 years in UK (ERC, 2015). Many equity release providers withdrew from the market in 2009-2010. This was primarily because of difficulties accessing funds for lending. Another reason for their withdrawal was the long duration it takes for these firms to recover their funds from the borrowers (Financial Times, 2009).

The ERC encourages its members to provide products adhering to a number of standards including:

- For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a “cap” (upper limit) which is fixed for the life of the loan
- The product must have a “no negative equity guarantee” i.e. when the property is sold even if the amount left is not enough to repay the outstanding loan the customer’s estate is not liable to pay any more.
- The product will be provided with an explanation of the plan with its benefits, limitations and obligations clearly set out.

6 Perspectives from consumers

6.1 Introduction

This chapter provides a summary of consumer-oriented research on the potential role of housing equity as a pension provision in six countries: Germany, Hungary, Italy, Ireland, the Netherlands and the United Kingdom (Workstream 3 of the research proposal). The research is based on so-called focus groups in which several predefined topics were discussed with a group of predominantly older home owners. In total, three focus groups took place in each of the consortium countries. Two different kind of focus group were organized.

In the first two focus groups, the approach was relatively general and exploratory. The following questions/topics were discussed.

- To what extent do home owners see their housing equity as a form of pension provision?
- How do home owners perceive the pros and cons of the various strategies to release housing equity?
- How do home owners perceive the market for financial products and to what extent do they have trust in the providers of such products?
- What influence does the context (presence of children, need for care, fiscal aspects) have on the decision to release housing equity or not?

In the third focus group, the focus was more specifically on the various financial products (also called Equity Release Schemes: ERS) that can be used to extract housing equity. In this respect, the following topics/questions were discussed:

- The differences between the loan model and the sale model
- How much equity would be extracted with the help of an ERS and for what purposes?
- What are the features of a 'good ERS'?
- How can the awareness about ERS be raised? What is the role of the various stakeholders in this respect?
- How do consumers feel about the various alternative ERS solutions that were developed in the framework of this research project?

In some countries, (some of) the participants that took part in the first two focus group discussions were also recruited for the third focus group.

Structure of this chapter

This chapter is structured in the following way.

- Section 6.2 presents an overview of the characteristics of clients of ERS (based on the ERS provider questionnaire that was sent out). Based on the results of this very same questionnaire, this Section also deals with issues of trust, transparency and consumer protection.
- Section 6.3 explains the research methods that were used in the focus group research
- Section 6.4 presents an international comparative overview of the results of the first two focus groups
- Section 6.5 presents an international comparative overview of the results of the third focus group.
- Section 6.6 contains the conclusions.

Furthermore, the appendices of this report also contain a wealth of information on the focus group research:

- Annex 11.4 contains the interview guides for the focus group, as well a document with some practical guidelines for carrying out these focus groups
- Annex 11.8 contains summaries of all the 18 focus groups that have been carried out.

6.2 Client characteristics and demand-side risks and challenges

6.2.1 Current EU Consumers of ERS

While some studies in the US, Australia and the UK exist that inform on the characteristics of the users of ERS, there is a general dearth of such comprehensive information about the nature and situation of consumers in existing markets. Our research has sought to collect this data directly from the leading ERS providers in the EU. Answers from the ERS provider questionnaire regarding client characteristics are summarised below.

User profile

Table 20: Numerical characteristics of the ERS customers (provider questionnaire)

Category	Mean
Age at termination of the contract	84.4
Average age at conclusion of contract	72.6
Percentage of couples	53.6
Percentage of single persons	46.4
Percentage of female customers	46.1

Note: Answers to: "What is the typical user profile of your ERS customers?"

As seen in Table 20, the average age of contract conclusion is above 72 years, while the age at the contract termination exceeds 84 years. Most of the customers have couple and are males.

In terms of the income the ERS customers belong largely to the low income — 8 cases out of 23 reported that they served low-middle and low-income customers. Only three firms answered that they served high-middle and middle-income customers. However, more than a half of the firms (12) did not provide any information on the income of their customers.

Typical contract profile

The typical payment amount is on average €61,723.5. The percentage of equity released (% of property value) is on average 37.8%. The average duration of a contract is 13.9 years.

Typical home location and value

The average value of a typical home is about €279,271. The typical homes are located in the cities (suburbs and inner-city), as Table 21 shows.

Table 21: Location of typical home (provider survey)

Category	Countryside	Suburb	Inner-city
----------	-------------	--------	------------

0	1	1	1
Less than 5%	4		
5-10%	3	3	3
11-25%	4	1	1
26-50%	1	3	3
51-75%		3	3
75%+	1	3	3
Don't know	1	1	1
Select	8	8	8

Motivation and use of the funds

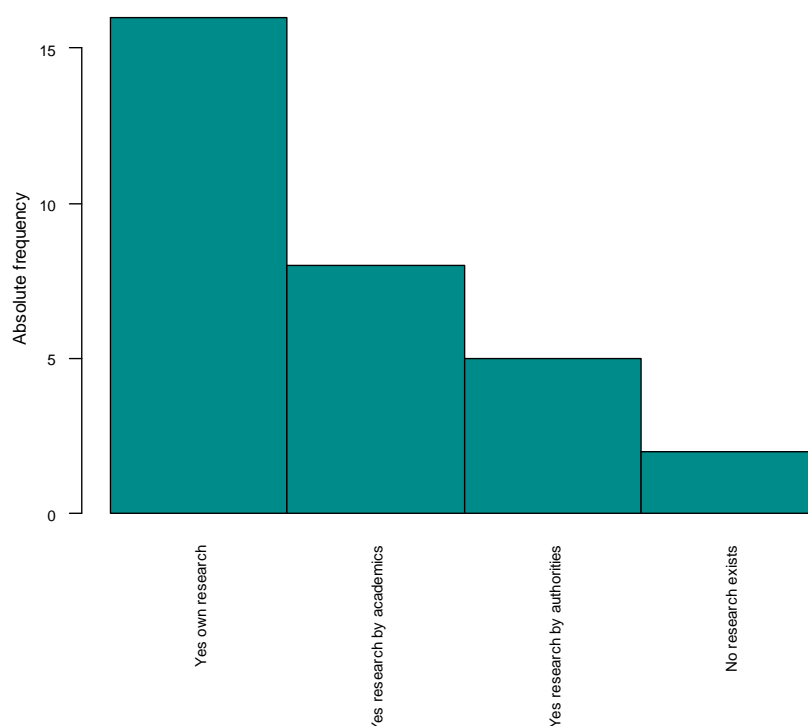
Table 22: Motives for the use of the funds (provider survey)

Category	Extra income	Purchases	Support	Renovations	Adaptation	Residence
	1	1		1	1	1
0			2			1
1		8	3	2	2	17
2	1	6	5	8	8	2
3	5	4	2	2	5	
4	4	2	9	2	3	
5	11	1	1	7	3	
Select	1	1	1	1	1	2

The main motives for using the funds are (see Table 22) the 1) extra income to cover day to day expenses; 2) financial support for friends or family (gift or loan); and 3) home renovations (general refurbishment).

Providers and level of knowledge and information about consumer sentiment

Figure 13: Research about consumer sentiment (provider survey)



Note: Answers to: "Have you or others undertaken research about consumer sentiment and attitudes to ERS?"

Figure 13 shows that the vast majority of the firms in the sample relies on some form of research. Most of them (16 out of 23) conduct their own research. Less than a half take advantage of the research carried out by the third parties (academics and authorities).

6.2.2 Risks and key issues for ERS consumers

The seminal study on Equity Release Schemes in the EU carried out for the European Commission identified and collected stakeholder opinions on the consumer risks associated with ERS, these can however be summarised in the following categories below.

As with any financial product, purchasing an equity release scheme exposes consumers to a variety of risks. It is extremely important for consumers to understand the risks they take on and their effects prior to purchase primarily because equity release schemes (ERS), especially lifetime mortgages, are long-term in nature terminating only upon death or permanent move-out. Moreover, many older people rely on the equity in their home for the purposes of long-term care payments, for instance in the US. Therefore, a gap in understanding the risks involved could lead to difficulties in old age. To minimize that from happening, it is mandatory for financial advisers to explain the risks for consumers in taking out an equity release scheme before product purchase. This section explains those risks facing consumers from a UK perspective.

Risk of receiving poor advice – In the UK, consumers seeking equity release products have to go through an advice process provided by a financial adviser before they can purchase the product. The adviser assesses the customer's circumstances and advises them on the most suitable type of equity release scheme. The adviser also explains about the expected benefits to the customer, tax implications and all types of risks involved in

addition to the advice on an appropriate provider. Therefore, vulnerable older consumers may become exposed to the risk of biased financial advice if the advice channel lacks adequate regulatory oversight.

Financial risk – ERS buyers face financial risks in several forms. For example, under a drawdown lifetime mortgage, where there is a pre-determined fund available to the customer to draw from during the course of the contract, there is an inherent uncertainty of default on behalf of the provider. In the UK market, however, if a financially regulated lifetime mortgage provider goes into liquidation, the regulator ensures that another company takes over its equity release accounts thus minimizing the risk for consumers.

Another form of financial risk facing ERS customers is the risk of foregoing the house price appreciation that they could have earned had they not entered into an ERS. In that case, the customer would have had the opportunity to tap into housing equity and subsequently gain from appreciating house price through other equity withdrawal mediums such as downsizing. This is an inherent risk facing both lifetime mortgages and home reversion customers.

Further, purchasing an equity release product has tax implications. For example, depending on the amount of equity released, as a lump sum, the elderly customer could end up paying capital gains tax on the overall gain above the tax-free allowance¹⁵.

The total amount of income and capital that older consumers possess affects their eligibility to means-tested benefits such as pension credit. Therefore, purchasing a lifetime mortgage or a home reversion scheme could affect their eligibility to means-tested benefits adversely and expose them to the risk of losing them.

Loss of Equity – In both loan and sale models of equity release schemes, customers lose a portion of the equity in their home leading to a decline in the inheritance amount. As the interest on the outstanding loan amount rolls up in a lifetime mortgage and is recovered by selling the house, there may be nothing left to pass on to the children at the end of the contract unless the customer has an inheritance protection plan.¹⁶

Housing wealth dominates most household portfolio (Benito, 2009) and is often the last resort of wealth for many older homeowners. In the absence of other assets, and by purchasing an equity release scheme, they reduce their buffers and subsequently become expose to the risk of being unable to meet their cash needs in adverse times or for care requirements.

Early repayment charge – A key feature of the lifetime mortgage is the 'early repayment charge'. The customer pays this charge if they decide to repay the full lifetime mortgage amount or if they pay more than the 'early repayment' amount stated in the contract before termination as specified in the contract happens (ERC, 2017). There is generally a 'mark-to-market' penalty, where the charge applied depends on interest rate movements between the date of inception and date of repayment (Hosty et al., 2008). This is could be a heavy penalty for the customer.

Legal risks – There is always the risk of losing the house to the ERS provider. Although it is rare, it occurs when customers fail to meet the terms and conditions of the contract. For example, the provider may repossess the house if the customer fails to maintain the property to the desired standards or rents it out (ERC, 2017). In the UK, the provider

¹⁵ Capital Gains Tax applies to the gains made by selling (or disposing of) of assets such as a residential property. In the UK, individuals pay Capital Gains Tax on the overall gains above the tax free allowance of £11,300 (see <https://www.gov.uk/capital-gains-tax/allowances>).

¹⁶ The presence of an Inheritance Protection plan reduces the amount of loan offered relative to the value of the house (see http://www.legalandgeneral.com/library/annuities/customerguide/All_You_Need_To_Know_Q54380.pdf)

issues a warning to the customer if there is any breach of the contract terms on the customer's behalf before taking any legal actions (ERC, 2017).

Risk of fraud – Given the vulnerable nature of those purchasing an ERS and the large sums of money available to them because of entering into an ERS contract, there are always risks when funds are reinvested. Elderly customers are increasingly being targeted by financial scammers (ERC, 2017) and trusted family members, relatives or friends may exert pressure to divert funds.

Purchasing an equity release plan exposes consumers to several risks. The impact of those risks varies according to the customer's circumstances. Fortunately, equity release professionals and policymakers in the UK have already identified most of those risks and there are regulations in place to mitigate them. However, the basic nature of equity release schemes jeopardises the amount of home equity, house price appreciation, state benefits and tax positions. Therefore, equity release schemes may not be suitable for everyone and consumers seeking to purchase an ERS product must evaluate the impact of risks associated with them.

According to the providers, the most relevant consumer risk is the loss of home (see Table 23).

Table 23: Consumer risks (provider questionnaire)

Category	Loss of home	Family dispute over inheritance	Temptation to invest funds for greater returns	Depletion of assets too quickly	Cheaper alternative available	Unable to exit even if opportunity arose
	1	1	1			
0			2	1	2	3
1	8	5	11	5	8	8
2		2	3	2	3	3
3	2	9	2	7	4	2
4	1	4		3	3	
5	9		1	2		2
Select	2	2	3	3	3	5

Answers to: "Consumer risks: Indicate importance on a scale of 1 (very low) to 5 (very high)"

Lack of consumer awareness, transparency and trust

In **Germany**, despite a sizeable number of articles regularly published on the subject, ERS products are still little known by the general public and thus not considered as options by these uninformed consumers that could potentially be interested. Furthermore, articles produced by the consumer testing organisations Stiftung Warentest and Ökotest in their monthly magazines have generally portrayed ERS products as expensive and complicated. Consumer consciousness of value for money means that the amount of funds that can be extracted from the schemes is seen as disappointing which suggests that expectations need to be managed. Informational campaigns about these products are necessary in order to tap into the potential demand. Provider marketing efforts tailored to their target group would also help rectify the low awareness or knowledge of ERS and the current general negative disposition towards these products stemming from unrealistic expectations with regard to the size of the funds released.

The lack of consumer information is also linked to the lack of research available for public policy generally. Results from stakeholder interaction so far for this project and desk research conducted, as a whole the subject of ERS is not sufficiently the subject of research. While there are country differences, as a whole, with a few exceptions such as in the UK, there is a need for academic and public policy research on the subject. This project aimed to contribute and foster the sharing of existing knowledge and the resulting project website serves to inform public policy makers, academia and other stakeholders as well as individuals interested in the subject of ERS.

At the current time, there is a lack of information about who uses these products and how useful and to what extent they are a value proposition for both potential providers and consumers. A better understanding of the motives for subscribing an ERS in terms of the consumption purpose will also help identify additional areas to focus on. For example, if the amounts released are motivated by rather large projects (such as modernisation, renovation or financial support of children), then greater focus will need to be placed on reducing the operational cost of ERS and thus increasing the amount of funds actually withdrawn.

Limiting the risks for consumers

Consumer trust and confidence is key to a favourable development environment and as such codes of conducts (e.g. on risk and documentation information duties) developed for the industry would contribute greatly. Included in these measures for a sustainable development are setting better practice conditions for the advisory session before purchase e.g. the nature (face-to-face), the interdisciplinarity and qualifications of the provider's staff, the involvement of the heirs in decision making/contractual commitments.

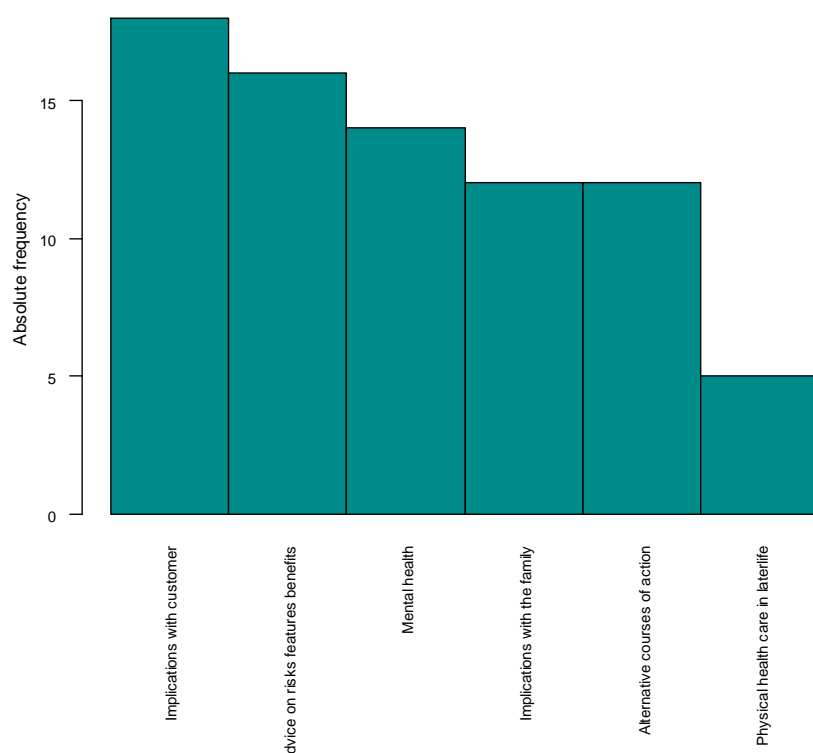
Reaching consumers through advice and attractive propositions:

To the question "*What specific pre-contractual advice or information has to be provided?*" we received the following answers from providers:

- 100% advised - independent advice / signed Safe Home Income Plan - Equity Release Council certificate witnessed by a solicitor. For more details on the certificate please visit the Equity Release Councils website;
- a filled out questionnaire;
- application;
- at a minimum a Key Features document together with advice from a qualified financial advisor and independent legal advice;
- brochure pack, legal terms and conditions, product presentation, statement of suitability;
- independent advice;
- information sheet and summary document;
- not regulated;
- product literature, KFI, Offer;
- the FCA MCOB rules and the ERC standard.

Figure 14 shows that the most widespread check providers undertake when selling ERS is implications with customer, directly followed by advice on risks, features, and benefits.

Figure 14: Checks undertaken when selling ERS (provider survey)



Answers to: "Which of the following checks do you undertake when selling ERS?"

The respondents find level and cost marketing as the most challenging stages of their business process (see Table 24).

Table 24: Most challenging and costly stages in the business process (provider survey)

Category	0	1	2	3	4	5	Select
Level marketing		2	3	4	5	6	3
Cost Marketing		3	1	3	5	8	3
Level Selection		2	5	7	5	1	3
Cost Selection		5	3	6	5	1	3
Level Advice	1	3	4	8	1	3	3
Cost Advice	1	5	6	2	4	2	3
Level Evaluation		1	7	7	1	4	3
Cost Evaluation		6	3	6	2	3	3

Level Contractual		5	2	9	1	3	3
Cost Contractual		4	5	8	1	2	3

Answers to: "Which of these stages in the business process do you find most challenging and costly?"

In the **United Kingdom**, the emerging problem of state's increased expenditure on retirement benefits due to an ageing population has brought equity release products in the spotlight as one of the mechanisms to enable asset-based welfare (O'Mahony and Overton, 2014). The Select Committee's report in the House of Lords highlighted the strategic importance of these products and recognised that their basic purpose is to provide financial assistance to older homeowners who are in need of supplementary retirement income. The Committee documented that older people lack confidence in these products. Consequently, the commercial take-up rates of equity release products are poor. This is why financial advice for older homeowners in relation to these products is vital (House of Lords, 2013).

In the UK, it is mandatory to seek financial advice from an authorised adviser prior to entering in an equity release contract (ERC, 2016). The adviser's job is to explain the product, the options available to the concerned individual and the implications regarding state benefits and tax obligations. The equity Release Council emphasises that it is in customer's best interest to approach a financial adviser who is a member of the council. This ensures that the customer deals with a fully qualified and experienced individual, to avoid any misconducts (ERC, 2016).

While it is important to seek financial advice, researchers such as O'Mahony and Overton (2014) find that the information and advice paradigm is of limited and unequal value in delivering consumer protection in their qualitative analysis of equity release consumers from the UK in 2009-10 and 2013. The authors find that equity release decisions were informed by a range of psychological biases and contextual factors including personal and financial circumstances within communities and networks and the nature of the relationship between the consumer and financial adviser. Financial advice was helpful mostly for consumers who were prepared to receive advice, who had already researched the options and who knew what to ask (O'Mahony and Overton, 2014).

In the **Netherlands**, the four products identified were examined from online information in terms of consumer advice provided.

Florius (<https://www.florius.nl/Pages/hypotheekvormen/verzilver-hypotheek.aspx>; last accessed on 6 February 2017).

The advice button delivers 2 options:

Advice by independent mortgage advisors. You can search the list on zip code.

Independent advice by Florius: even though the website contains a phone number, it does not really offer advice by Florius. It again advises to contact an independent mortgage advisor.

The website specific for the reverse mortgage suggests to call Florius (same number as above) or talk to an independent advisor.

Zilver Wonen Fonds (<http://www.zilverwoneninvest.nl/contact/contact-opnemen/>; last accessed 5 February 2017) shows an address for Investors Relations (Amsterdam) and one for Real Estate Management. Apparently, homeowners and investors can get to meet in a so-called Media-Circus. By website one can ask for an appointment either at home or at the Amsterdam Office. See also: <http://www.zilverwonenfonds.nl/Pages/Contact/AanmeldenBijeenkomst.aspx#ref> (last accessed 5 February 2017).

Verzilvermijvast (<http://verzilvermijvast.nl/>; last accessed 6 February 2017) offers free advice. It offers a phone number, an email address and a postal address for visitors, next to a website form to request a meeting.

Thuisborg (<http://thuisborg.nl/>; last accessed 6 February 2017) also has a website form that one can fill in if one would like an appointment. Thuisborg explains that they will not be able to buy all dwellings offered, but will put them on an electronic market (<http://borgplaats.nl/>; last accessed 6 February 2017).

In conclusion, the three sale models (funds) do not seem to be available via independent advisors, while the reverse loan seems to be.

Consumers can make use of websites of consumer organizations for consumers like the Consumentenbond (<http://www.consumentenbond.nl/hypotheek/huis-opeten>; last accessed 6 March 2016) or for owner-occupiers united in the Vereniging Eigen Huis (<https://www.eigenhuis.nl/woonsituatie/werksituatie-verandert/pensioenen/overwaarde-huis-opnemen>; last accessed 6 February 2017).

6.3 Research methods in the focus group research

In order to ensure a high level of comparability between the countries, the same interview guide was used in all participating countries (see Annex to the final report). However, focus groups are a qualitative semi-structured research method which means that it was stimulated to inquire further when additional, related themes came up during the discussion. Consequently, some focus group outcomes may put more emphasis on particular topics than others.

The aim was to have about 8 to 10 participants per focus group (see also the document with practical guidelines in Annex 11.4). The chance exists that in larger focus groups, the ideas and opinions of shy or less articulate participants may not be heard. It was left to the researchers in the individual countries to recruit the participants. In most cases, they found them via consumers organisations, but in some cases, they approached individuals who had already participated in other research for their institution. The country summaries (see Annex 11.8) provide more information on the recruitment process and the composition of the focus groups in the various countries.

Reporting of the focus groups

All focus groups discussion were recorded with an audio device and sometimes also with a video device. Based on these recordings, full transcripts of the discussion were made (in the national language). Furthermore a 10 to 15-page summary with the main findings was produced for each focus group (see annex 11.8).

6.4 Results of the first two focus groups

This Section provides a comparative analysis of the results of the first two focus groups. The empirical information for this analysis comes from the focus group summaries that can be found in annex 11.8. The rest of this Section is structured as follows:

- Section 6.4.1 presents the characteristics of the focus groups participants
- Section 6.4.2 explores the various motives why people become home owners.
- Section 6.4.3 deals with the various sources of retirement income
- Section 6.4.4. describes how the participants perceive the pros and cons of the various forms of housing equity release
- Section 6.4.5 explains how the decision to release housing equity is influenced by the presence of children (attitudes towards bequest)
- Section 6.4.6 provides insight into the extent to which people already have experience with ERS

- Section 6.4.7 looks at the opinions that people have towards integrating ERS and pensions
- Section 6.4.8 deals with the perceived trustworthiness of the providers of financial products

6.4.1 Characteristics of the focus group participants

This subsection gives a short summary of the participants in the focus groups. In most countries, it was possible to form two focus groups with about 6 to 9 participants. In Hungary it was complicated to find participants, because it was summer vacation and many older people then take care of their grandchildren. Calls to participate in Parma, Italy received great interest, which resulted in a focus group with 15 participants. (see Table 24). In Italy and Ireland, the researchers decided to organise focus groups in two different locations, because they expected different results between larger cities and smaller cities. The large majority of the focus group participants were home owners with an age above 55. Not all participants were retired yet and therefore able to report a first-hand experience with retirement income and the role of housing assets. Nevertheless, the participants were all old enough, with the youngest in their fifties, to have thought about retirement.

Table 24: Number of participants, location and age distribution of the first two focus groups

	Number of participants	Location	Age distribution (min-max)
Hungary 1	9	Budapest	61-75
Hungary 2	3	Budapest	74
Italy 1	15	Parma	56-83
Italy 2	9	Rome	57-77
Ireland 1	10	Waterford	Predominantly > 55
Ireland 2	7	Dublin	Predominantly > 55
United Kingdom 1	7	Belfast	63-75
United Kingdom 2	6	Belfast	51-90
Germany 1	8	Hamburg	65-82
Germany 2	9	Hamburg	51-69
Netherlands 1	8	Delft	Mainly 55-75
Netherlands 2	8	Delft	Mainly 55-75

Mortgage debt

Given our research focus on releasing housing equity it is important to know how much equity the participants have accumulated in their dwelling. In most countries, the focus group participants had repaid their mortgages entirely (see Table 25). In Germany, a minority of the participants in both focus groups still had some financial debt.

The Netherlands is a special case. In this country, it has become quite common since the late 1980's not to repay the entire mortgage in order to take maximum profit of the

mortgage interest deduction. Consequently, only about a third of the Dutch participants had actually repaid the entire mortgage debt. Some Dutch participants had a debt of around 50,000 euros, but there were also people with an outstanding mortgage debt ranging from 160,000 to nearly 400,000 euro's (but this concerned relatively expensive dwellings). The Dutch government has become aware that such generous debts constitute a financial risk, so it has stimulated homeowners to repay mortgage debt. Since 2013, tax relief is only granted on annuity or linear mortgages and mortgage vehicles that only repay the entire mortgage sum at the end of the mortgage term (after 30 years) are not allowed anymore. However, this only affects new mortgages (taken out after 2013). In sum, we may conclude that most focus group participants have accumulated a considerable amount of equity in their dwelling. Therefore, the topic of housing equity release is of utmost relevance for them.

Table 25: Mortgage debt of focus group participants

	No mortgage	Small mortgage	Significant mortgage
Hungary 1	All? ¹⁷		
Hungary 2	All		
Italy 1 (Parma)	All		
Italy 2 (Rome)	6	1	1
Ireland 1 (Waterford)	All		
Ireland 2 (Dublin)	All		
United Kingdom 1	All		
United Kingdom 2	5	1	
Germany 1	5	3	
Germany 2	Majority	Minority	
Netherlands 1	3	3	2
Netherlands 2	2	1	5

6.4.2 Entering home ownership: finance and motives

The financing of the first home

Most participants in the focus groups have been owner-occupiers for a long time. At the time of first entry into home ownership, nearly all of them remember using substantial down payments from savings. For instance, Irish participants mention that they took out mortgages at around 75% of the value of the dwelling. They also indicate that 100% LTV

¹⁷ No specific information was available on this topic but based on our knowledge of the Hungarian institutional context, we assume that all the mortgages have been paid off.

mortgages were not available at the time¹⁸. German respondents often state that they participated in the government supported home savings schemes (*Bausparen*). Some of the Italian and Irish participants remember that savings and mortgage were not enough to buy or build their home and that they received financial help from parents and/or relatives. A few of the Italian respondents said that they did not need any mortgage and that they had inherited an entire house. Finally, a somewhat remarkable way of entering owner occupation applied to Hungary in the Communist era. In that time, home ownership was not a free choice, because people with an income above a certain level were obliged to buy a home.

Motives for becoming a home owner

Based on the answers of the participants in the six consortium countries, it is possible to distinguish between various motives for becoming a home owner.

Cultural motives

In Ireland, Italy and the UK, participants voiced strong cultural and emotional preferences for home ownership. An Irish participant explains this from the historical context: *"I think looking at the history of land ownership in Ireland, I think, it could probably (be) terribly deep into our roots and, we own where we can. Bearing in mind, until the Land Acts (late 19th/early 20th Century), we were tenants. And very many instances, in medium to small farms, you were almost tenant at will. And I have no doubt that is in our genes and will be in them for many generations, I have no doubt the insecurity of the tenure moved us to house ownership or property ownership. And I think it comes to us very deep. But I think deep into our genes, ownership is important and passing it on. Whatever way you pass it on (Ireland)"*.

An UK participant spontaneously ties the (British) home ownership ideal to bequests: *"Buying a house isn't an option for everyone, but I think it's an ideal aspiration to try and find steady work and to be able to pay your mortgage off on time and leaving it behind for your family. I mean using your home for financial purposes would be a last resort for me. Because you are undermining your financial security. What are you leaving on to your family? (UK)"*.

Italian participants also referred to cultural reasons: *"I bought a property for cultural reasons because in the place where I grew up living in your own house was a sign of civilization (Italy)"*. And *"I bought a house for cultural reasons. I remember when I was a child that the concept of saving to buy a house was fundamental. As soon as I got married I thought about the house and I bought one....(Italy)"*. But this participant continues to indicate that he/she perhaps acted too much out of the common tradition *"... this was a kind of violence because I am a free soul. I like changing because this keeps you young"*. In Ireland, peer pressure to enter owner occupation was explicitly reported. As a result, many people wish to enter owner occupation as quickly as possible. Sometimes this would lead to a struggle to find sufficient finance.

The most noteworthy contrast to such ideals was found in Germany, where participants do not remember being in a hurry to buy a dwelling. Neither do they experience peer pressure when they do not do so.

Pragmatic motives

An important pragmatic motive to buy a dwelling is financial. Contrary to renting, home ownership is regarded as an investment in asset-building. Comments such as the following illustrate this view: *"I chose to buy a house because paying a rent seemed to me as throwing money out of the window (Italy)"* And: *"Well, homeownership - you are putting money into your own financial benefit rather than in someone else's (UK)"*. Investment motives are often part of buying a dwelling, as an Italian quote confirms: *"Buying the*

¹⁸ Indeed, the financial literature from the 1980's confirms that 100% mortgages were rare in most European countries in the 1980's (Boleat, 1985, National housing finance systems: a comparative study).

house where to live is typical of the Italian mentality: here investing means buying a house (Italy)". Possibly this investment focus has specific historical roots in the Italian context, because before the introduction of the euro, savings devalued quickly under inflation. Nevertheless, also in other countries the investment dimension was a motive for buying a dwelling *"My idea was, I buy a house and if things go well the house increases in value. (Netherlands)".*

Participants also mentioned the high costs of the private rental sector and restricted access to affordable (social or public) rental dwellings: *"I started to work in Amersfoort in 1974 and there I could rent private rental houses with rents of around 1000 guilders. My salary was also 1000 guilders so if I would choose to be a tenant I would have nothing to eat. The waiting lists for social housing were very long so buying a house was the best option for me (Netherlands)."*

In some countries, security of tenure is also explicitly mentioned as a motive to buy a dwelling. Both Irish and British participants referred to this *"...It (home ownership) gives you that stability of tenure rather than renting, which could be insecure! The landlord can ask you to leave or could sell the house... (UK)."* It should be noted that the occurrence of this motive is strongly related to the national rental legislation. For instance, the participants in Germany and the Netherlands hardly mentioned this, because these countries are characterized by a strong rent regulation and tenant security.

Finally, many participants established a link with the main theme of this project, which is the role of housing in old age. Many indicate that they had bought the dwelling with a long-term perspective, as it means that one can live rent-free when the mortgage has been repaid.

6.4.3 Sources of income at retirement

In the focus group discussions, participants were asked about their sources of income at retirement. They were requested to rank the various income sources in order of importance. The answers that were given provide a rough illustration of the various national pensions systems (see Table 26).

In Ireland and the Netherlands, occupational pensions are the main sources of retirement income, followed by the state pension. The UK differs somewhat from these two countries, because private pension insurance also plays a role here. State pensions are the most important retirement income sources in Italy, Hungary and Germany. In these countries participants also indicated that their outright owned home provides free living. Therefore, the home ownership home can also be seen as a form of pension provision.

Most focus group participants are satisfied with their retirement income level, although their income is generally significantly less than when they were at work. According to some participants, this is no problem at all because their spending levels are lower as well. For example, commuting costs disappear after retirement. Furthermore, they don't have dependent children anymore and many live in outright owned housing, which means that housing costs are limited. Comparatively, participants in Italy and the UK are less satisfied with their retirement income levels than participants in the other countries.

As already indicated, outright owner-occupied housing can serve as an implicit form of retirement income. However, not all focus groups participants are aware of this. In the Dutch focus groups, some participants only realised this during the discussion after which the other participants agreed. In the UK focus groups, outright owner occupation was not mentioned as such spontaneously. In Germany and Italy, income from rental properties was also mentioned relatively often as a form of retirement income.

Although many participants assert that they have sufficient retirement income, there are strong doubts about the sustainability of future pension systems, due to strain on government budgets and ageing populations: *The people in their thirties and their forties now pay for the big grey group that we are. While we are generally in a good financial situation, their future situation will be less positive (Netherlands).*

Table 26: Sources of retirement, ranked according to importance

Country	Rank 1	Rank 2	Rank 3
United Kingdom	Occupational pension/private pension insurance	State pension	Social benefits
Ireland	Occupational pension	State pension	Private pension insurance, own home
Italy	State pension/income from other properties	Own home/ private pension insurance	
Hungary	State pension	Own home	Family-relatives
Germany	State pension	Own home	Private pension insurance/rental income/occupational pension
The Netherlands	Occupational pension	State pension	Own home/private pension insurance

6.4.4 Attitudes to different forms of housing equity release

In a so-called vignette (see Figure 15), the participants were presented with the hypothetical situation of a pensioner's household that had financial troubles. Subsequently, they were asked to give advice to the household in the vignette. With this way of working, we intended to reveal attitudes towards the different forms of housing equity release.

Figure 15: The vignette that was used in the focus group discussions

An older retired couple (age around 70) without children lives in an a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners (they have already paid off the mortgage). The couple is having financial problems; their retirement income is insufficient to cover their expenses. Therefore, they are thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following five options:

- Sell the house and move to a rental dwelling;
- Sell the house and move to a smaller home ownership dwelling;
- Sell the house and rent it back (sale- and lease-back);
- Stay in the house and use a financial product to extract the housing equity;
- Let out part of the dwelling

The participants were asked to rank the options in the vignette in order from most preferred to least preferred. Table 27 gives a closer insight into the average ranking of the various options per country.

Overall, selling and moving to a smaller owner-occupied dwelling was most preferred option. It scored the first place in all countries, with the exception of Italy where it scored second. In Italy, special equity release products (ERS) were the most advised option whereas in four other countries this option was ranked in the second place. Hungary is an exception to this. In the latter country, almost all participants put the ERS option in the last place. Overall a bit less preferred were the two rental options (moving to a rental dwelling, sale-and-leaseback) and in the last place (overall) came the option to rent out part of the dwelling. In the remainder of this Section, we discuss the outcomes in more detail and address the various motives to choose, or not to choose, for one of the options¹⁹.

Table 27: Average ranking²⁰ of the various housing equity release options in the six consortium countries

	Germany	Hungary	Netherlands	UK ²¹	Ireland ²²	Italy	Overall
Sell house and move to rental dwelling	2.7	3.0	2.9	2.6	4.5	4.2	3,3
Sell house and move to smaller owned home	2.0	1.2	1.8	2.0	2.0	2.7	2,0
Sell house and rent it back	3.5	3.8	3.1	2.7	3.0	4.1	3,4
Stay and use equity release scheme	2.7	4.9	2.7	2.1	2.5	2.4	2,9
Let out part of dwelling	3.7	3.0	3.6	n.a.	3.0	3.4	3.3
Swap house (Ireland only)	n.a.	n.a.	n.a.	n.a.	4.0	n.a.	4.0

Selling and moving to a smaller owner-occupied property

Overall, the focus group participants in all six countries showed a high preference for selling the house and moving to a smaller owner-occupied property. Many older households have an emotional attachment to the house where they raised their children (if they have

¹⁹ Although the participants were asked to advise the couple in the vignette, in reality they often expressed what they would personally prefer. This is not a problem because we don't expect big differences between advice and personal preference.

²⁰ Average ranking: See annex 11.5 for the ranking per focus groups. In Ireland and Italy, the first two focus groups were carried out in different locations (Dublin, Waterford, Rome, Parma). The rankings that were given considerably varied between these 2 locations.

²¹ A 4-point ranking scale was used in the UK.

²² A 6-point ranking scale was used in Ireland.

children) and they would like to stay in it as long as possible. However, there often is a trade-off between emotional attachment and pragmatism. As one Irish resident (Waterford) puts it: *"No, I think people might want more to stay in the community basically, you know, the familiars or surroundings. Like for instance, my children they are probably not going to live in Waterford. If God forbid, my wife dies, I will be on my own in a four bedroom house. What do I want a four bedroom house for? (Ireland)"*. Also in other countries, some focus group participants mentioned that staying in your own neighbourhood is even more important than staying in your own house.

The overall preference for selling and buying a smaller property is further illustrated by, for instance, the German participants who show that their preference for owner occupation is great, but there is no ideology of staying in the family house at all costs: *"Selling and buying something smaller that is age-adequate is a good option especially if you can also have an extra room for a caregiver. This is cheaper than paying for an old-people's home (Germany)"*. Furthermore, many indicated that being (outright) home owner keeps the bills low. Some participants already seem to (emotionally) disconnect with their current house and prepare for a move: *"I am enjoying my house less than before because my grandchildren are now too old to play in the garden. The house is big and requires a lot of maintenance. I am not sure if it is a good idea to keep on living there. The question is what strategy is best for us, not so much in financial terms but more in terms of our physical and mental health (Netherlands)"*.

Nevertheless, several participants also indicated that they would like to stay in their current house until death. If this is not possible, moving to another owner-occupied house is an option, but *it would be hard as I am emotionally attached to the house (Germany)"*. Others were concerned about the burden of moving at old age: *"Moving house at that age would be a terrible trauma. You don't want hassle whenever you are in your seventies or eighties. You don't want that (UK)"*.

The Hungarian participants are most in favour of selling and buying a smaller property. At the same time, they strongly opposed ERS schemes. The main motives for this were a strive for financial independence and a general dislike of mortgages. In Hungary, there is a general distrust of the government and the banking sector. Most of the older people grew up under an entirely different political system with an oppressive government. Furthermore, mortgage provision in foreign currencies has resulted in much trouble during the financial crisis. Consequent, the faith in the banking sector is currently very low in Hungary.

A significant intra-country difference was visible in Italy. While the Rome focus group followed the general pattern of selling up and buying a smaller property, half of the group in Parma expressed great interest in ERS and mentioned emotional attachment to their property: *"For me moving to a different place would mean shortening my life (Italy)"*. *"It would be traumatic (upsetting) for me to move to a different place from the houses I have lived in for so many years (Italy)"*. *"I think it is important to live in the same house also from a practical point of view because you get used to that space and you know how to move around in that place. This is very important especially for those elderly that are not autonomous, living in the same house means that they would have some reference points to move around (Italy)"*.

In Rome, there was more aversion towards ERS and moving house was seen as a bit less problematic: *"For me it is not necessary to stay in the same house, so it is not a problem if I have to move (Italy)"*. *"It is not easy to move, some sacrifice must be done (Italy)"*. The aversion against ERS seems to be related with general discontent with the government and the banks. The Italian PVI equity release scheme is not trusted by many of the Italian participants (see also annex 11.8).

Equity Release Schemes (ERS)

Although selling and buying a new property was overall the most preferred option, many participants also advised an ERS for the couple in the vignette (see Table 28). In most contexts ERS came in second place of all five (or six) options mentioned. In Parma, Italy, it even came in the first place as a result of the aforementioned strong emotional ties with

the family house. Also in the other contexts, the possibility to continue to live in the family house was a strong motivation for advising/choosing ERS: *"I have an emotional attachment and this would be comfortable for me (Germany)"*. The main exception is Hungary, where staying in the dwelling and using an ERS came in last of all five options. This seems to be linked to the general adversity of the Hungarian public towards mortgages (see the remarks that were made earlier in this Section).

Although the ERS obtained a rather high average ranking in most countries, particularly in the UK and in Italy, this average was based on polarised views. Some put it first on their list, because it offers the opportunity to stay in the family dwelling, whereas others take a much more negative stance. In Italy some participants ranked ERS last, not so much because they disliked the general idea, but out of an aversion towards those that execute the schemes: *"The PVI (prestito vitalizio ipotecario, government supported ERS) is a good idea but there is no future for it at least with these politicians (Italy)"*. *"Ideally, this could be a good solution, but I am perplexed because there is no trust in banks (Italy)"*. Some are also wary of the high cost involved: *"The PVI is too expensive and the bank do not grant you a high sum, furthermore the younger you are the lower is the transfer that you receive from the bank. I do not think this is very convenient for us (Italy)"*.

In the UK, there was a divide between those that were interested in ERS and those that disliked ERS. The latter regard it as having a traditional mortgage once again: *"With equity release schemes you are actually going back to a situation when you are paying somebody to live in your own house again. It does seem attractive, but you are really going back to the start again whenever you were in your 30's (UK)"*. To a lesser extent, one of the German focus groups also showed such a (polarised) divide. Interestingly, those (German) participants that put an ERS on the first place were the ones that had a more modest income and thought of tapping into the housing equity as additional income, without having to move. The ones with more generous retirement provisions did not consider it.

More in general, older home owners in all countries attach a high value to financial autonomy. This limits the potential for releasing housing equity: *"It is not wise to release all your housing equity and give it away or spend it. You need to keep some buffer for the future, even if it is only for the funeral, because you never know what the future will bring (Netherlands)"*.

Sale and lease back or selling and moving to a rental dwelling

These two options were presented separately, but to many respondents they seem to overlap somewhat, even though the sale and lease back option involves staying in the current dwelling. In most countries, these options came at around third or fourth place. There was not always much discussion on these options, but one of the British groups discussed the choice between ERS or sale and lease back. Both options allow the inhabitant to remain in the dwelling, which was an important issue for many focus group participants. Insecurity with regard to the future rental payments was seen as an important disadvantage of sale-and-leaseback constructions: *"Selling the house and renting it back, I suppose there is a danger in that if you are going to make a budget, you know how much rent you can pay back, but the rent can go up the house. So you have to think if you can be able to afford that in a longer term whereas equity release would be steady income (UK)." On the other hand, getting rid of maintenance hassles can be an important advantage of renting a house. "I consider renting as less exhausting than owning a house (Germany)."*

In Ireland and Italy, these options were appreciated differently within the country. Whereas in Waterford, selling up and renting and sale and leaseback came in the second and third place (comparable to ERS), in Dublin the rental options were ranked as inferior. Although the Waterford group was positive about selling and renting another property, they had some doubts about the viability, because they all thought there is not sufficient supply of such rental dwellings. In Dublin selling and renting another property received a last place, because participants immediately related it to the local housing market, where rents are very high (in their own neighbourhoods).

In Parma, Italy, the group gave a rather high average rank (second) to selling and lease back. This was quite obviously related to the aforementioned strong emotional ties with the current dwelling. Selling and renting another property received the lowest rank in Parma. In Rome, both rental options were placed last. This may be related to high rents in Rome. Participants mentioned that especially smaller properties are scarce and have a relatively high rental price. Many dwellings in Rome have been converted into AirBNB for tourists, adding to housing shortages.

Rent out part of the dwelling

In the Netherlands and Germany, letting out part of the dwelling was ranked as the last option. The main reason was that participants would not feel good when having other people, “strangers” in their house: *“Because you are in financial trouble you let other people in your house. I do not think this is a good motivation for subletting part of your dwelling (Netherlands)”*.

However, one participant that has experience with subletting says it is possible under the right arrangements: *“I have organised my house in such a way that I can sublet it. I have added an extra kitchen and bathroom and a separate entrance for the tenant (Netherlands)”*.

Again, in Ireland and Italy, there were remarkable differences between cities. In Dublin, renting out an extra room received the highest rank. Some participants had first-hand experience in renting out rooms to University students. In Waterford on the contrary, renting out a room (or part of the dwelling) was ranked as the worst option, possibly because rent levels in this city are lower than in Dublin. In Parma, this option was also allocated the last place, while in Rome it got the second place. The motives were not discussed but possibly the Romans are aware of the potential income that can be generated by renting out rooms (or B&B) in this constrained housing market.

6.4.5 Attitudes towards bequest

A factor that can significantly reduce the willingness to release housing equity is the bequest motive. Several previous studies have suggested that bequest motives may form an impediment to the release of housing equity. In the focus groups, we have investigated whether this really is the case (see Table 28 for the overall results).

Overall, many participants indicated that leaving a bequest would be positive, although it is not something that should be strived for at all cost. One notable exception is Hungary, where participants were very much in favour of leaving a bequest, especially the family dwelling. Even the one Hungarian participant that stated that he did not want to leave a bequest, made an exception for the family dwelling: *“I don’t think inheritance is important. They inherit the dwelling (Hungary)”*.

In Italy, one group (Rome) indicated that family and inheritance are traditionally important, but that the influence of these factors is gradually declining. Still, within this group, the majority affirmed that leaving a bequest to relatives is a moral obligation, even for those that do not have any children. *“Leaving a bequest is leaving part of myself to my children, it is a way of keeping living after death” (Italy)*. *“Bequeath is part of your roots that you would like to transmit, you put together the history of your family (Italy)”*. At the same time, some realise that they may have to use their assets for their own needs: *“I do not have children but I have nephews. Because of the mentality and the values that my parent transmitted to me, I would like to leave them something also because they are living in a difficult historical period. But this bequest is constrained to the needs that I will face (Italy)”*.

Apart from the perspective of inheritance as a moral obligation and traditional value in Hungary and Italy, there were roughly three additional perspectives on leaving a bequest in the other countries.

The first perspective revolves around the idea that leaving a bequest is good, but not at all cost. *“I want to but I don’t have to. I will not save just for this reason (Germany)”*. *“We*

don't save for our children. Let that be clear (Netherlands)". Moreover, children are not always expecting a heritage. According to a participant who had used an ERS "When we were taking out this equity release, my children didn't care about the money and they don't care even now. They were like live life. But I wanted to leave something for them.... (UK)".

The second perspective focuses more on inter-vivo transfers. Children (or other relatives) often do not really need the inheritance after their parents pass away, because they will then be in their forties-fifties and may already have a good socio-economic position at that age. Many focus group participants agree that it is better to support relatives, if possible, in an earlier phase. *"My children need the money now, for studying, buying a house, raising children. I prefer to support them now rather than that they have to wait until I die. But of course, I want to keep some buffer so that they don't have to support me when I get older. I would not like that (Netherlands)".* The latter quotation clearly shows that many older home owners are trying to find a balance between providing financial support to their children on the one hand, and maintaining financial autonomy on the other.

The third perspective emphasizes that parents may not really wish to leave a bequest. Many parents have already spent much money on rearing and educating their children. After this, the children should be prepared to enter society and fend for themselves. If assets are left after death that is fine, but children (relatives) should not count on it. *"I have generously supported my children financially so they already got what they deserved. Whether I leave an inheritance for them or not, is not so important anymore (Netherlands)". "For me, when you are older, it is the time to look after yourself. You have already educated your children. It is a time to concentrate on yourself (UK)".* Furthermore, some do not intend to leave a bequest because they expect to need the money for their own purposes, for example for the finance of health care. *"I have two daughters but I don't feel I should leave them a heritage. I have no idea how much I have to pay for care in the years to come. Suppose my wife and me die together at this moment, then the children receive the house and quite some money. But if we die in 10, 20 or 30 years there is probably not much left (Netherlands)".*

In some contexts with generous pension schemes (e.g. the Netherlands), there is debate about the fortunate position of the elderly. Still, even in those contexts, the response is often that their children are richer than they were themselves in their young days: *"They say that pensioners are richer than ever. This is true but my children that are in their thirties and forties are also much richer than I was at that age (Netherlands)".*

In the focus groups, we found little proof for the so-called SKI phenomenon (Spending the Kids Inheritance) as mentioned in the popular media. SKI stands for willingly spending all the assets in order to avoid leaving a bequest. Only very few participants in all the focus groups explicitly stated this *"I have no intention to pass on the asset as I will use the money if I can, my kids are doing well (Germany)".* Another German participant was more inclined to SKI *"I would not have a problem with leaving my children with debts when I am gone... This may sound selfish but I am not saving for my children and if I do not pay back all of my debt, they will have to face some (Germany)".* This participant also said that she was not very close to her three children.

Others indicated that any intention to leave a bequest depends on the characteristics of the family: *"I think it all looks at how the family is living. Say if you are a doctor or a teacher and that's how you earn your living and your children have the different qualifications or the same, they don't require a capital to make a living. They do not require the land or the machinery as some families do. So it depends on the circumstances of the family (Ireland)".*

Taxation also plays a role in some contexts. It is financially more advantageous to gradually donate tax (annually) exempted sums, rather than bequeathing all and paying inheritance tax. This was heard especially in the Netherlands and the UK.

Table 28: Attitudes towards leaving a bequest in the six consortium countries (based on the focus group results)

Country	Importance of bequest motive
Hungary	++
Italy	+
Germany	-
Netherlands	-
Ireland	+/-
United Kingdom	+/-

Note: ++ very important; + important; +/- neutral; - not very important; -- not important at all.

6.4.6 Equity Release Schemes: experience, knowledge and interest

Experiences with ERS can provide very meaningful feedback to organizations and policy makers that consider introducing such schemes. Indeed, first-hand experience should generate the most valuable information, but those who know persons that have used ERS may also have some relevant opinions on the topic. Another aim was to assess whether people had knowledge about ERS, which would be an indicator for their awareness about the topic. The main findings on this topic are summarized in Table 29.

Experience with ERS

Other Sections of this research report will show that few ERS are available and that their take-up is limited. The only country with a reasonable degree of availability is the UK. In Italy, the government has formally regulated the product offer. Of all focus group participants in all countries, only one had actually used an ERS product. This person was very open about the experience and told that they took out a small sum of money (25,000 sterling). However, this person bemoaned the lack of transparency and guidance by the ERS provider: *"Well I didn't agree with it anyway at the start, but we obviously got things done that we wouldn't have got done otherwise. And then my daughter would say to me 'live life'. She would say she would feel sickened by the fact that they have so much, the value of the house has increased so much now and the deeds and everything so she would tell me to go here and there. They take your deeds. That annoyed me because they did not tell us they would take them before. It was a lump sum payment of £25000. We won't take anymore now, definitely. We did not receive any advice from anyone. It was all over the telephone. My husband did all the talking. He would speak to one particular girl at all the time and she explained to him. I wasn't really in favor of it so I didn't really take an interest in it but in the end, I had to sign it. Both of us had to sign. But to see that amount double over 9 years because the interest rate is so high gives me an awful feeling."* (UK).

Knowledge about ERS

In most countries, the participants knew something about ERS. In Italy, some had had contact with providers of the commonly known PVI scheme. Many participants in various countries expressed an interest in ERS but indicated that they lacked sufficient knowledge about the products. Furthermore, they expressed considerable mistrust against financial institutions.

In the Netherlands, there has been a practice of releasing equity from the dwelling through a second mortgage. However, this is a normal mortgage and interest needs to be paid. Formally speaking, this is therefore not an ERS. The Dutch practice of second mortgages appears to depend on economic cycles. Some participants mentioned that it is currently rather complicated to take out a second mortgage, even when there is surplus value in the

house and the income stream of the applicant is stable. This is due to the fact that the Dutch government has tightened the loan-to-income norms for mortgages after the financial crisis.

In Germany, the longstanding 'Immobilienleibrente', which is a type of Home Reversion product, was known among the participants. Immobilienleibrente is an agreement where an individual sells the dwelling to a provider and usually receives part of the value in a lump sum. The remainder is paid in monthly (or annual) terms.

Table 29: Experience with ERS and knowledge of ERS in the six consortium countries (based on the focus group results)

Country	Experience with ERS	Knowledge of ERS
Hungary	--	-
Italy	--	+/-
Germany	--	+/-
Netherlands	--	+/-
Ireland	--	+/-
UK	-	+/-

Note: ++ Very much; + much; +/- neutral; - not very much; -- not at all.

Interest in Equity Release Schemes?

For our research project, it is of crucial importance to know to what extent people are interested in ERS. As indicated before, many participants indeed expressed a latent interest in the topic. This should be seen in the wake of national pension system reforms. Demographic ageing is an important reason for this, especially in countries with a relatively old population such as Italy and Germany. The recent financial crisis has clearly accelerated the implementation of the reforms. It puts significant pressure on governments to cut budgets, whereas occupational pension funds have suffered enormously from declining investment returns on the global financial market. Consequently, many European countries are currently increasing the retirement age to 67 or even 68 years, whereas pensions are sometimes frozen or even decreased.

In all focus groups, the participants expected that retirement income will decline in the future. The Hungarian group did not so much fear a decline of retirement income but rather the increasing costs of life (instability and devaluation of the Forint, whereas Euro and Sterling are relatively stable). UK and Italian participants had already indicated their dissatisfaction with current retirement income levels (see Section 6.3.3), which could be a reason to think about ERS.

The results of the vignette exercise (Section 6.3.4) showed that many participants in various countries regard using an ERS as the second or third option. Only in Hungary ERS ranked on the last place. This confirms that there is considerable interest in ERS among the participants. At the same time, there is very little experience with using ERS products and it turned out that the knowledge on ERS products was also fairly limited. Many had read or heard something about ERS but they usually did not know all the details of these often complex products *"These products are for people who are keen to look into details, this is not for everybody" (Germany)*.

The participants also stated that they would like to learn more about ERS: *"I would need exact information, on how these products are calculated (Germany)"*. Also in other countries, participants told that they lacked the information needed to really have an informed opinion on the pros and cons of ERS. Mistrust in providers also plays a role here.

For instance, the Dutch participants said that they would try to inform themselves via the national Home Owners Association (*Vereniging Eigen Huis*) rather than use information from banks.

6.4.7 Opinions on integrating ERS and pensions

The aim of this Section is to gain some more insights into the participant's views on integrating ERS and pension schemes. What do the participants think of combining an ERS with pension savings and provisions?

In general, the participants were interested in this idea. The exception may be Hungary, where this theme was not explicitly discussed as a topic, but the overall discussion revealed a strong aversion towards equity release schemes. In the other countries, hardly anyone saw ERS as a single retirement income product. Rather, it was seen as an addition to the normal pension. One German participant made a plea for a flexible and integrated ERS-pension product that allows people to choose between investing in a pension fund and investing in a dwelling. Some participants also commented that younger people should think about their pension provision at an earlier age, but this also led to discussion about whether one can really foresee the future.

The differences between national pension systems also became evident in the discussions. In Ireland, pension provision is mostly a private, personal matter and mandatory (occupational) pensions do not apply, although many are offered occupational pensions by their employers. When the topic of home ownership and pensions was raised, some in the Irish group reacted that it might be good to stimulate some kind of obligatory pension savings. In the UK, auto-enrolment in occupational pension schemes has actually been reintroduced recently.

In the Netherlands and Italy, participants explicitly indicated that they did not trust equity release schemes in the hands of banks. *"ERS can be convenient, but making a decision about using such products as a form of pension requires caution because banks are involved (Italy)". "I don't trust it. If you think about what happened in recent years. With mortgages and everything.... I would say no.... (Netherlands)".*

In most countries, participants indicated that they would need much more information and that this information should be provided by independent organizations, such as the government or homeowners' or consumers associations. This also relates to the next section, where the trustworthiness of providers is discussed.

Interestingly, there was sometimes not much trust in what people would do with the proceeds from ERS. In case people receive a lump sum, wouldn't they spend it over a short period of time? *"You see, with equity release, a lot of people, maybe at a certain age or if they have a certain way of handling money, they would say 'well that's money in my hand now' and blow it on holidays and all."*

In the Netherlands, participants made a link with the collectivity of the (mandatory) occupational pension schemes. They suggested that an ERS can also be based on collective insurance principles, similar to other collective pensions. In that case, people put their dwelling in the hands of an ERS company and they receive a lifelong income stream from a reverse mortgage, based on the value of their dwelling. The collectivity principle guarantees that people who reach a very old age, will continue to receive payments. Those that die young will, in a way, pay for the aforementioned.

6.4.8 Trustworthiness of providers

In the focus group discussion, we tried to find out which organizations would be best trusted as providers of ERS. In this respect, the participants were asked to give a grade from 1 (no trust at all) to 10 (completely trustworthy) to the following five types of providers:

- Banks

- Commercial companies
- Insurance companies
- Occupational pension funds
- Government

The results of this exercise are shown in Table 30. In the UK and Ireland, the scoring took place in another way than in the rest of the countries and only relatively results can be presented.

Table 30: Average grade on 1 to 10 scale for the trustworthiness of (potential) providers of ERS in the six consortium countries (based on the focus group results)

	Netherlands	Italy	Hungary	Germany ²³	UK	Ireland
Banks	4.8	3.2	5.5	4.4	+	-
Commercial companies	4.3	2.0	6.0	4.2	0	0
Insurance companies	6.0	3.4	4.4	5.0	+	-
Occupational pension funds	6.0	2.9	2.6	6.3	0	+
Government	5.5	4.9	3.0	6.3	+	+

Note: + = relatively trusted, 0= neutral, - = relatively low trustworthiness.

Overall, there seems to be limited trust in all providers of ERS. In the Netherlands, Germany, the UK and Ireland, there is a reasonable amount of trust in the government. In Italy and Hungary on the other hand, the trustworthiness of the government is low. In Germany, the Netherlands and Ireland, occupational pension funds also received relatively high grades.

Private sector enterprises (banks, insurance, commercial providers ERS) received relatively high grades in Hungary which may be related to the historically embedded distrust of the government in this country. In the other countries, the private sector generates less trust as a provider of ERS than the public sector. Furthermore, it is remarkable that in Hungary and Italy, there is very little trust in occupational pension funds. Possibly, this is related to recent pension cuts in both these countries.

There was not too much discussion on the background of the grades, but it is clear that the low trust in providers of ERS hampers the further development of the ERS market. As the low grades in Italy suggest, the financial sector will need to regain confidence: *"This (ERS) is a good idea but there is no trust in banks and for this reason I feel puzzled (Italy)". "I don't think that these products will be a solution. There is a lack of trust in banks. If I will ever need more resources I will sell my house to buy a smaller one and I will manage by myself the liquidity (Italy)".*

Both in Ireland and the Netherlands, participants in the focus groups suggested that non-profit providers of financial services such as cooperatives (the Netherlands) and credit unions (Ireland) were missing from the list. Such organisations are more transparent and less likely to be involved in customer unfriendly practices. They are based on membership and aim for the best product for their members, which may not always be the case with commercially driven enterprises. Interestingly, this option was not mentioned in Germany,

²³ The German results have been recalculated in order to assure a good comparison with the other countries.

where part of the financial system is also based on cooperative basis. The German participants were possibly aware of the fact that these organisations have not entered the German market for ERS (yet).

6.5 Results of the last focus group

This Section provides a comparative analysis of the results of the third focus group. The empirical information for this analysis comes from the focus group summaries that can be found in annex 11.8. The rest of this Section is structured as follows:

- Section 6.5.1 presents the characteristics of the focus groups participants
- Section 6.5.2 explores the preferences for currently available equity release schemes (ERS)
- Section 6.5.3 investigates the purposes for which the respondents want to use the proceeds of ERS.
- Section 6.5.4 investigates what a good ERS should look like
- Section 6.5.6 explores how the trust and awareness of ERS can be raised
- Section 6.5.7 investigates the opinion of the participants towards the different alternative ERS solutions we presented them with.

6.5.1 Characteristics of the focus group participants

This Section gives a short summary of the characteristics of the participants in the last focus group (see Table 31). The number of participants ranged between 4 (Hungary) and 12 (Italy). Most participants were 50 years or older. However, in the Irish focus group some younger participants were included as well. In the Netherlands, Germany and the UK, all participants that were invited for the first two focus groups were also invited for the third focus group meeting. In Hungary, two participants originated from the first two focus groups and two were newly recruited. In Ireland and Italy, all focus group participants were newly recruited (see annex 11.8 for more information on the recruitment process in each of the consortium countries).

Table 31: Composition of the third (last) focus groups

	Number of participants	Location	Age distribution (min-max)
Hungary	4	Budapest	Above 60
Italy	12	Parma	56-81
Ireland	10	Waterford	From 30 years, mostly above 55
United Kingdom	6	Belfast	62-80
Germany	8	Hamburg	52-72
Netherlands	7	Delft	55 and above

6.5.2 Preferences for current Equity Release Schemes

Loan model or sale model

The loan and sale model were explained to participants in all countries, but not all countries had a discussion on the pros and cons of these models. Time was a factor in some countries

for choosing not to dwell too long on this topic, the idea being that there would be more discussion about alternative equity release models further onwards in the focus group discussion.

In Italy, the participants simply referred to the existing model on offer in this country, which is the loan model. They used this model as a general frame of reference in the discussions. In Germany, participants were negative about the loan model. They did not want to take out new loans after repaying their mortgage, while they also feared the complexity of the loan model. The German participants showed more appreciation for the sale model because they expected more income from this model than from the loan model. However, they also kept mentioning that downsizing would be a good option as this is much less complex than using a financial product. Also in the UK, the complexity of ERS was seen a problem. People need to have a fair amount of financial literacy to be able to understand an ERS.

In the Netherlands, the choice between a loan model or a sale model was more extensively discussed. The Dutch group had some critical remarks about the sale model concerning the maintenance: *"When you paint your dwelling or when you insure your dwelling, does the ERS provider pay his share?" "What happens when you expand your dwelling?"*. The Dutch participants were of the opinion that shared ownership should also mean shared possibilities. In Germany, this topic was discussed in a similar vein. Some Dutch participants were worried that an ERS provider which holds over 50% of the dwelling, may someday decide to push for a sale. The moderator explained that tenure security would usually be granted through proper product standards.

Comparing the loan model and the sale model, a Dutch participant argued that the loan model is a normal lending model, where *"the bank just sits back and receives money"*. In the sale model on the other hand, the ERS provider becomes more of a shareholder/participant in the home project. The sale model somehow feels better for this participant. Many other Dutch participants also tilted towards this way of viewing it.

In Germany, respondents were explicitly asked how they viewed the transfer of part of the property to the ERS provider in the sale model. Would that be a reason for not using such a model? Overall, the German participants still viewed the sale model as the best option. They had a pragmatic stance towards the partial transfer of ownership in which such a model would result. *"It (the transfer of ownership) wouldn't mean that much to me either, the question would be what it brings me."*

6.5.3 Purposes for equity release

In all the focus groups, the participants could indicate for which purpose they would use an ERS, in case they would take up one. In line with the outcomes of the first two focus groups (topic of home ownership ideals), it turned out that the Italians and Hungarians were most disconnected from this topic. They answered the questions, but part of this group clearly indicated that they did not want to use an ERS. Rather, they wanted to keep on living as an outright owner.

The participants were presented with the following five options for utilising home equity:

- Day to day expenditure such as grocery, utility bills
- Medical expenses
- Help family members
- Leisure, Second home
- Other

They were asked to rank these options with a number from 1 (most preferred option/highest proportion) to 5 (least preferred option/lowest proportion). Table 32 shows the results of this ranking exercise (average rankings).

Table 32: Average ranking²⁴ of the various housing equity release spending purpose in the six consortium countries

	Germany	Hungary	Netherlands	UK	Ireland ²⁵	Italy	Overall ²⁶
Day to day expenditure such as grocery, utility bills	3.1	2.5	4.0	n.a.	5.0	2.9	3.1
Medical/care expenses	3.4	2.5	2.3	n.a.	2.0	1.9	2.5
Help family members	2.1	3.8	2.0	n.a.	1.0	2.3	2.6
Leisure, Second home	1.9	2.3	3.6	n.a.	3.0	3.9	2.9
Other	4.0	4.0	3.0	n.a.	4.0	4.7	3.9

There were some similarities, but also remarkable differences between the countries. Overall, 'medical and care expenses' as well as 'helping family members' ranked high. 'In the Netherlands, some participants referred to adapting their dwelling with special facilities so that they don't have to move when they become older and frailer. In Italy, familial care by children is very important for older people, but this becomes constrained because of rising employment insecurities for the younger generation. Buying care by releasing equity can then be an alternative.

'Helping family members' usually referred to helping children in buying a home or maybe starting a business (Italy). Using equity release to pay for day-to-day expenses was not ranked very high in most countries, with the exception of Hungary and to a lesser extent Italy. This might be related to less generous pension systems in these countries. One Dutch respondent stated that he would not use housing equity for day-to-day expenses himself. However, he knows people with a limited pension. Some of these people have worked outside the Netherlands where they did not participate in mandatory employment related pension schemes. Therefore, they did not have sufficient pension income when they returned. Also, there are more and more self-employed people in the Netherlands that do not have a good pension provision. All these people might need to take up an ERS in order to be able to pay for their day-to-day expenses.

6.5.4 What should a good equity release product look like?

The UK has most experience with ERS of all 6 countries that participate in this project. ERS providers in the UK have established the Equity Release Council (ERC). The ERC is an institution that guarantees a number of product standards with regard to ERS. Participants in the other countries were asked to indicate which of these product standards are important to them. Particularly for the Germans, this was a very theoretical exercise. There is little ERS on offer in Germany so the participants had little reference material. Looking

²⁴ See annex 11.8 for the ranking per focus group.

²⁵ The ranking for Ireland is the absolute ranking for the group as a whole.

²⁶ Based on the average of Germany, Hungary, The Netherlands and Italy.

at the ERC standards for a scheme as presented below (see Table 33), one German participant reacted *"I have the impression that this is a commercial poster. As a borrower, I feel too well treated. That makes me a little suspicious."* The participants were asked to rate the various products characteristics with a grade from 1 (very important) to 4 (not important). The results of this ranking exercise are shown in Table 34.

The *'Right to tenure'* (the right to remain in the dwelling as long as one wishes) was consistently mentioned as one of the top three requirements. A *'Fair and simple illustration of the plan'* and *'information on all costs involved'* were the other top-3 requirements. Furthermore, the no-negative-equity-guarantee ranked quite high in various countries. Interestingly, in the Netherlands, *'flexibility to move homes'* was considered important. Somehow the Dutch respondents must have been concerned that an ERS commitment might lock them into their house.

This topic raised some further issues as well. In Italy, there was some concern about the valuation of the house. First of all, there is considerable regional price variation, which may cause regional inequality with regard to the possibilities of equity release. Furthermore, some local housing markets are very illiquid, which may complicate (fair) valuation (Italy).

Especially in the UK, there was discussion on how such complex financial products could be explained to older people. *"You need to be very sharp mentally to take all that..."* and *"That struck me as well that it is very complicated, very difficult to take all that in, weighing out the advantages and disadvantages and then making a person who perhaps isn't in full control of their mental state so that sort of thing declining mental cognitive ability to beginning to decline I think that could be difficult."*

Table 33: Characteristics of a 'good' ERS according to the standards of the Equity Release Council

a) Fixed interest rate or
b) Variable but capped rate of interest
c) Right to tenure
d) No negative equity guarantee
e) To be able to choose your own solicitor
f) Fair and simple illustration of your plan
g) Information of all costs involved and who will bear them
h) Tax implications clearly explained
i) Early repayment options
j) Flexibility to move homes

Table 34: Average ranking (1= very important, 4 = not so important) of the various characteristics of a good ERS in 5 consortium countries (UK not included)

	Germany ²⁷	Hungary	Netherlands	Italy	Ireland ²⁸	Overall ²⁹
a) Fixed interest rate or	1.3	1.5	1.7	1.5	7	1.5
b) Variable but capped rate of interest	1.8	1.8	1.4	3.8	6	2.2
c) Right to tenure	n.a.	1	1.1	1.2	2	1.1
d) No negative equity guarantee	1.0	1.3	1.4	2.0	4	1.4
e) To be able to choose your own solicitor	1.4	1	n.a.	2.1	5	1.5
f) Fair and simple illustration of your plan	1.5	1.5	n.a.	1.3	1	1.4
g) Information of all costs involved and who will bear them	1.0	1	1.3	1.0	3	1.4
h) Tax implications clearly explained	1.6	1.3	1.6	1.6	5	1.5
i) Early repayment options	1.9	1.8	2.5	2.6	8	2.2
j) Flexibility to move homes	2.0	1.8	1.1	2.0	8	1.7

²⁷ In Germany, a 5-point scale was used. In order to assure comparability between countries, the 5-point scale has been recalculated into a 4-point scale.

²⁸ In Ireland, an absolute ranking was used.

²⁹ Based on the average of Germany, Hungary, the Netherlands and Italy.

6.5.5 Raising trust and awareness

One major finding with regard to raising trust, hinges on transparency of the products. The previous Section already mentioned some concerns of older people who find it complicated to understand ERS products. In Italy, the participants made explicit links between trust and awareness (having sufficient information). *"Awareness is a precondition to trust, without knowledge there is no trust."* (Italy) and *"Awareness and knowledge about the product help us to feel more sure about the choice to take"* (Italy). Such views relate to earlier questions about the most important characteristics of the equity release products. A *'Fair and simple illustration of the plan'* and *'information on all costs involved'* were ranked high in all countries (see table 24). Some (mostly Italian and German) participants also mentioned that they would value independent (autonomous) financial advisers. In the Netherlands, one participant made a remark about potential suitable actors in the information provision *"The last ones should be all these financial specialists."* (The Netherlands). And a German participant: *"Trust is built if banks don't offer anything bad. The market has to surrender first."* (Germany).

Again, in Hungary and Italy the aversion towards the financial sector is strong and there is very little trust in providers of financial products. Although in Hungary, mistrust of the government is also widespread, the participants do think that government regulation of products could help. Involvement of the state in (independent) information provision seems to be an option for most participants in all countries (although not explicitly mentioned in the summary for the UK). There were also suggestions that standardisation of products can help (Netherlands). This would enable consumers to better compare the products that different providers have on offer. Objective comparative product platforms could be provided by the state or by independent consumer organisations, it was stated in Germany. The German participants did not trust the private financial intermediaries anymore. This seemed to be due to the fact that fiscal incentives for a recently introduced state supported private pension saving scheme (*Riester Rente*) often accrued to intermediaries' compensation rather than to the pension saver itself.

In the Netherlands, there was also some discussion about comments made by consumer organisations. The Dutch consumer organizations say that there is a very small market for ERS in the Netherlands. Therefore, consumer organisations are not stimulated to put much effort into developing information platforms. But as such information platforms are lacking, the general public will remain hesitant-mistrusting against ERS and a vicious circle comes into being. A possible breakthrough could then be imposed by a government financed agency that provides objective and transparent information on ERS. In further discussion, a participant remarked that the government should make clear choices with regard to its involvement in ERS information campaigns. Such a campaign needs to be societally relevant and should focus on ERS as an alternative from of pension provision *"It shouldn't be a campaign that promotes ERS to just go out there and buy a camper for long vacations."* (The Netherlands).

Methods to create more awareness

Participants were questioned about various methods to create more awareness of ERS. They were asked to rate the following options:

- Advertisements on TV, newspapers, magazines
- Targeted flyers to older people
- Themed websites
- Social media
- Face to face contact with a financial intermediary

The previous discussion already indicated that independent-autonomous face-to-face advice from a financial intermediary would be highly valued. This implies less dependency on commercially driven advisors who may have other motives than just helping the customer. As indicated above, some government involvement in the information provision

would be highly valued as well. The various non-personal methods for raising awareness (advertisement, flyers, websites, social media) received mixed opinions of the participants.

6.5.6 Alternative ERS solutions

The aim of the last part of the focus group discussion was to discuss the pros and cons of a number of possible alternative ERS solutions that were developed within the framework of this research project. In some countries, these alternative models have been slightly adapted in order to fit better with the national circumstances.

A remark should be made about Hungary. As indicated earlier in this chapter, the Hungarian participants were extremely mistrusting of ERS and gave very low scores to any model. In the Netherlands, one of the models (Government agency as intermediary) was not discussed because it seemed unfit for the Dutch context. After the discussion of a particular model, the focus group participants were asked to evaluate the model concerned on a number of aspects. The overall results of these evaluation exercises are presented in the sequel. More specific findings can be found in the Annex to this report. It should be noted that some of the evaluation aspects were considered less relevant in some of the countries, as a result of which they were not presented to the focus group participants.

Model 1: Lifetime lease with a parallel pension plan

This is a lifelong plan targeted towards people who have trouble accessing home ownership and who need to build up some kind of pension provision. The idea is that people rent (lease) a dwelling for a very long time. As a result of this, they would receive some discount (compared to a market rent) on their rental payments. This discount, and possibly some additional money as well, will be put into a pension fund. This kind of system would possibly appeal to those people for which the ordinary pension provision is insufficient. Such people will be especially prevalent in countries with limited state pensions and a system of private pension provision. However, even in countries with good mandatory employment related pension schemes (e.g. the Netherlands), this scheme might be viable for the increasing self-employed workforce or those that have 'gaps' in their employment related pension contributions. Such gaps in contributions can arise for instance after work abroad, spells of unemployment and/or spells of part-time employment.

In the UK and the Netherlands, the model immediately received criticism because it does not allow people to move. In these countries, people on low incomes often start in a small (social) rental dwelling but move on once their socio-economic position improves, following the principles of a housing career. The model discussed here does not take this into account and therefore seems particularly viable for countries with a low mobility rate. With the exception of Hungary and to a lesser extent the UK, the participants gave quite favourable marks when asked whether this would be an attractive product for people on low incomes that can't manage (afford) a mortgage (see Table 35). Most participants also agreed that a lifetime lease would indeed imply that the rents would be below the market level.

Opinions differed on whether the government would be enthusiastic to support such a scheme. In Hungary, the Netherlands, Ireland and the UK, the opinions were quite neutral or even negative. However, in Germany and Italy, it was regarded by some as a product that could be well received by the government. For Italy, a small social rental sector in combination with insufficient pension coverage might be a reason for this response. In Germany the opinions varied, with some regarding government support as a very good idea, while others did not find this desirable. Finally, the participants disagreed with the proposition that it would not matter much that households using this scheme will not benefit from house price appreciation.

Table 35: Opinion of the focus group participants about the lifetime lease model, average scores on a five-point rating scale (1=completely disagree, 5=completely agree)

		Germany	Hungary	Netherlands	Italy	Ireland ³⁰	UK	Total
1	A lifetime lease would be attractive to young people on low incomes that can't manage (or don't want to manage) a mortgage	3.9	2.0	3.1	3.7	4.0	2.6	3.2
2	A lifetime lease will mean rents lower than the market rate.	3.6	2.5	n.a.	3.4	4.0	3.7	3.4
3	This product would be attractive to those on low incomes	4.0	2.5	n.a.	3.5	n.a.	n.a.	3.3
4	The government would be keen to subsidize this type of arrangement.	3.5	2.0	2.4	3.3	3.0	2.5	2.8
5	It doesn't matter that the customer does not share in house price appreciation.	3.3	2.0	2.1	2.0	2.0	2.0	2.2

Model 2: Integrating a traditional mortgage and a lifetime mortgage into one product.

In this model, people take out a mortgage in order to buy a dwelling. They receive a tax benefit on the mortgage interest paid, which will be invested in a pension fund. After retiring, they will also have the opportunity to take out an ERS. Thus, they receive income streams from both the pension fund and the ERS after retirement.

In most countries, the participants considered this an attractive option for first time buyers. (see Table 36). In Germany, Ireland, Italy and the UK, the participants completely agreed with the idea that young people need help with home buying and building up a pension.

In the UK, questions immediately arose as to who would manage the pension fund. In the Netherlands, the participants reacted somewhat negatively when they heard this might be a (commercial) private pension provider (collective non-profit pension funds are common in the Dutch context). There were also some concerns about the legal design. *".....but I think you need to disconnect this pension fund from the mortgage product. Otherwise, the bank may get my pension holding in case I default."*

³⁰ In Ireland, the focus group came to one shared opinion.

Still, the idea of combining a mortgage with pension saving received quite favourable responses. There are some doubts whether young people will be interested in it, given the very long term of the arrangement. Having such a long-term view may be too much to ask from a young home buyer. Nevertheless, the principle behind the scheme is certainly considered as something positive. The Dutch participants also mentioned that this solution might help those that expect less pension coverage than others, for instance those in self-employment.

It should be noted that in the Netherlands there already is a tax relief on paid mortgage interest. Homebuyers, particularly starters on the housing market, take this into account when buying a dwelling. Therefore, in the Netherlands, the proposed solution would result in less financing capacity for starters on the housing market. This could be problematic given the fact that Dutch house prices are already very high, and starters often use their full financing capacity when buying a home.

Table 36: Opinion of the focus group participants with regard to 'integrating a traditional mortgage and a reverse mortgage into one product', average scores on a five-point rating scale (1=completely disagree, 5=completely agree)

		Germany	Hungary	Netherlands	Italy	Ireland ³¹	UK	Total
1	This product would be attractive to first-time buyers.	4.4	2	3.7	3.4	4	3.2	3.5
2	Young people need help with home buying.	4.3	2.5	n.a.	4.3	5	4.5	4.1
3	Young people need help with saving for their retirement	4.4	2.5	n.a.	4.3	4	4.7	4.0
4	A commitment to using their home to support their retirement is too much for a young home buyer.	3.0	2	n.a.	3.5	4	3.3	3.2
5	I think mortgages and retirement saving should be kept separate.	2.3	2	2.7	3.7	2	2.8	2.6

Model 3: Shared ownership by tenants and an investment fund

In this model, an investment fund develops a housing complex. The main idea is that people who cannot buy a dwelling can buy a (small) share in a dwelling complex and pay rent for the part that they don't own. They are able to buy more shares in the complex from the investment fund or from other tenants if they can afford this later on in their life course. If on the other hand they need extra money (for example after retirement), they

³¹ In Ireland, the focus group came to one shared opinion.

can sell their shares. Shares can be priced in relation to the market value of the dwelling, so any value appreciation will accrue to the shareholders.

In several countries, this model was regarded as an interesting solution for lower income groups (see Table 37). The participants had mixed feelings about the idea of owning a share in a dwelling, rather than owning one's own house. In the Dutch case, participants did particularly like the flexibility of the model (buying and selling shares).

The legal structure of the proposed model raised some critical questions. One topic for discussion was the valuation of the dwellings and/or shares. There was some mistrust against valuers. According to some of the focus group participants, there should be an independent valuator involved that would monitor and determine the value of the dwellings/shares. There was also some insecurity about the financial aspects of the model. To some extent, this model was also regarded as an interesting model for social cooperation, for example in the form of co-operatives. Particularly in the UK, the model was regarded as a suitable housing option for older people that want to live together rather than living in a care home. At the same time, the UK participants found this model hard to fathom and mentioned that its success relies very much on the cooperation of the people in the dwellings involved.

Table 37: Opinion of the focus group participants with regard to 'shared ownership by tenants and an investment fund', average scores on a five-point rating scale (1=completely disagree, 5=completely agree)

		Germany	Hungary	Netherlands	Italy	Ireland ³²	UK	Total
1	This product would be attractive to those on low incomes.	3.6	2.0	3.4	3.7	4	3.7	3.4
2	I like the idea of owning a share of a real estate fund instead of a house.	3.0	2.0	2.9	2.6	3	2.8	2.7
3	I think this would work financially.	2.8	2.0	n.a.	3.3	4	3.0	3.0
4	As this approach relies on social cooperation it is likely to be successful.	3.0	2.0	n.a.	3.2	4	2.8	3.0
5	This is a good way to save for retirement	3.4	2.0	3.7	3.3	3	3.3	3.1

Model 4: pension savings post mortgage payment

The main idea of this product is that one buys a dwelling and pays back the mortgage. After repaying the loan, however, the household still continues with the same monthly payment. Then, the monthly payments are deposited into a pension (retirement) fund.

³² In Ireland, the focus group came to one shared opinion.

After reaching the retirement age, the participating households can release equity from their dwelling while they also have a pension pot. The size of that private pension asset of course depends on the age when the mortgage is repaid. In some countries, access to home ownership comes at a relatively 'late' age, while the term of mortgages can also be 30 years or even longer.

Overall, Irish respondents were quite positive about this product (see Table 38). They especially liked the switch between mortgage and pension investments. This flexibility was also appreciated in most of the other countries. In various countries, the participants agreed this would be an interesting product for middle-aged people on modest incomes.

Although flexibility between mortgages and pension investment was appreciated, there was also some support (particularly in Germany and Ireland) for the statement "*People would have other uses for their cash after repaying their mortgage*". This raises some questions as to whether large groups of people would be eager to really get involved with a pension product like this.

For the Netherlands, the product was presented somewhat differently. Mortgages tend to last quite long in this country and they are generally only paid off when people are close to the retirement age. This makes the proposed alternative less suitable for the Dutch context. Instead, the Dutch participants were asked whether they would like simultaneous flexibility between loan repayment and investing in a pension fund. In other words, during the entire mortgage term, people can decide at any time whether they repay their mortgage or invest in their pension. Some Dutch participants doubted whether such flexibility would really have an added value, given the good employment related pension system in the Netherlands. Others remarked that it would be a good solution for the self-employed (allowing them to benefit from strong rises in the asset markets and retreating to mortgage loan repayments during an asset market decline).

Table 38: Opinion of the focus group participants with regard to 'Pension savings post mortgage payment', average scores on a five-point rating scale (1=completely disagree, 5=completely agree)

		Germany	Hungary	Netherlands ³³	Italy	Ireland ³⁴	UK	Total
1	This product would be attractive to middle-aged people on modest incomes.	3.8	1.5	2.7	3.4	4	3.7	3.2
2	I like the flexibility of switching between housing and pensions.	3.4	2	3.7	3.6	5	4.0	3.6
3	Housing and pensions should be treated the same way tax wise.	3.6	2	3.4	3.3	4	3.3	3.3
4	People will pay high charges on small pension funds.	3.3	2	n.a.	2.4	3	n.a.	2.7

³³ In the Netherlands and the UK it was stated: "This product would be attractive to young people on relatively low incomes.

³⁴ In Ireland, the focus group came to one shared opinion.

5	People would have other uses for their cash after repaying their mortgage (other than pensions like this)	3.6	2	n.a.	2.6	4	n.a.	3.1
---	---	-----	---	------	-----	---	------	-----

Model 5: Government agency as an intermediary (interest rate linked to a house price index)

This model is based on paying a flexible interest rate on an ERS. One main setback of a normal ERS is that the interest rate (compensation for the provider) can be quite high, which results in a relatively small share of the entire equity release accruing to the home owner. In the proposed model, the idea is to link interest rates to the value appreciation of the dwelling. A higher interest rate is paid when the dwelling value rises, and vice versa. The interest rates to be paid will be linked to a regional house price index. With such a model, the risk of negative equity can be smaller and as a result of this people will be enabled to release a higher proportion of their housing equity. Government participation is needed in order to pool risks of regional house price variations.

In all countries except Hungary and the Netherlands (where the model was not discussed), this alternative received a reasonable reception (Table 39). The idea of variable interest rates was not appreciated in Germany, however. Maybe this is related to the German financial culture in which fixed mortgage interest rates seem to be the norm. The involvement of the government in the proposed model was regarded as positive. Participants, in particular those of the UK and Ireland, also thought that this model would increase the chances of leaving a bequest to the children, as the risk of negative equity would be smaller.

Table 39: Opinion of the focus group participants with regard to 'Government agency as an intermediary', average scores on a five-point rating scale (1=completely disagree, 5=completely agree)

		Germany	Hungary	Netherlands ³⁵	Italy	Ireland ³⁶	UK	Total
1	Variable interest rates on equity release schemes would be OK	2.5	2	n.a.	3.7	4	3.5	3.1
2	My house value increases at the same rate as other houses in	3.8	2	n.a.	3.2	4	3.3	3.3
3	I think there would be more money left as an inheritance with this product.	3.1	1	n.a.	3.0	4	3.8	3.0

³⁵ In the Netherlands it was stated: "This product would be attractive to young people on relatively low incomes".

³⁶ In Ireland, the focus group came to one shared opinion.

4	I like that the government is involved in this product.	4.1	2.5	n.a.	3.7	5	3.5	3.8
5	Providers won't lower their interest rates even with this product.	3.8	2	n.a.	2.3	4	3.3	3.1

6.6 Conclusions and recommendations

The focus group discussions have shown that there is considerable interest in releasing housing among consumers. Less generous pension and health care systems are important drivers for this. Releasing housing equity does not necessarily involve a financial product. A majority of the focus group participants suggests that in case of financial need, especially if one lives in a large house (see vignette), a house sale combined with a move to a smaller owner-occupied dwelling is the first option. In that case, people are not dependant on financial institutions and they can live rent-free which, for many participants, is one of the main benefits of owner occupation in the later life course.

At the same time, various participants state that they have an emotional attachment to their dwelling. For this people, releasing housing equity while staying in the house (ERS, sale-and-leaseback) would be an interesting option. Indeed, for the people in the first two focus groups (see Section 6.4.4.), using an ERS was often the second advised option.

Apart from the desire to become old in the family dwelling, the interest in ERS seems to be connected to the wish to offer children a helping hand. Many participants indicate that they prefer to financially help their children when they are still alive rather than leaving a bequest after they have passed away. A majority of the participants thinks that it would be nice to leave a bequest, but not at all costs. At the same time, various participants were wary to release too much equity because they might need it for care purposes when they became 'really' old. Financial autonomy turns out to be very important for older home owners.

Many focus group participants indicate that they lack the knowledge of ERS and they would like to have access to objective ERS information from independent sources. Only one person in all the focus groups had first-hand experience with equity release schemes and this person indicated that she was ill-informed about the product. According to the focus group participants, information about ERS should preferably not come from the financial sector alone. There is a need for objective information that is distributed by objective parties.

Probably as result of the global financial crisis, the trust in financial institutions is relatively low across the board. Introducing uniform product standards, such as the ones developed by the Equity Release Council in the UK, might enhance the trust in the providers of ERS. An awareness campaign of the government could also have a positive role. Preferably, such a campaign should focus on the societal benefits of ERS.

In the last focus group, some alternative ERS solutions were discussed. It is difficult to attach some clear conclusions to the discussions, because the products discussed did not fit always fit the institutional context of a country. Moreover, the opinions of the participants might be biased due to a lack of product knowledge (the products discussed were rather complicated) and a general distrust in the financial sector. Nevertheless, the discussion on alternative ERS solutions clearly showed that particular groups (young people, self-employed, tenants) need some support in their pension provision. Therefore, it seems wise not to limit the discussion of, and product development within, ERS to older home owners alone. Also on the supply side a broadening of the perspective seems

desirable. Providing ERS should not be limited to commercial parties alone. Private non-profit parties and government agencies could also have a role.

Finally, it should be noted that our research has been of a qualitative nature and that one should be reluctant in generalizing the research results. A generalization to the European level is impossible, not only because of the limited number of participants per country, but also because of the sometimes fundamental differences between countries that we encountered. Furthermore, also within a country there may be variations, for example according to housing market region. To decision to choose for an ERS is influenced by both contextual (welfare state, pension system, fiscal aspects, culture, housing market situation) and individual factors (income and spending pattern, housing situation, health, presence of children). This chapter gives an idea of how these factors work out and interact in particular countries and for particular households. However, even though some quantitative overview tables are presented, our analysis does not pretend to give a comprehensive and quantitative picture of the importance of each of the factors. The latter would require a follow-up international comparative quantitative research project.

Policy recommendations

Based on the findings of this chapter, we come to the following four policy recommendations:

1. More objective information on ERS should be provided.
2. Uniform product standards for ERS should be developed.
3. The central government should develop a clear vision on ERS (pros, cons, connection with other policy areas).
4. Product development in ERS should not only focus on older home owners but also on young people, self-employed people and tenants.

7 Providers and products

The separate sections show the differences between the products in the various countries of our research coverage. The aim being to develop common elements for pan-European products, we have highlighted differences that exist in the existing offerings.

7.1 Actual market overview

Loan Model products are available in the majority of Europe's largest economies with the exception perhaps of Germany. They exist in the UK, Italy, Spain, France, Sweden, Poland and Portugal (since 2017). In Hungary, both the Sale Model and the Loan Model option have been available, but both types of products were shelved during the financial and economic crisis. In addition to the UK with the largest market, and Italy covered in the dedicated country sections, other member states where consumers are currently potentially being offered ERS include Spain, France, Sweden and Poland. According to the case studies, only the Irish and British ERS markets are well-developed and mature. In both countries, the number of suppliers dropped during the crisis, but there is still a broad range of offerings.

Table 40 and Table 41 show the results of the provider survey regarding the product offerings.

Table 40: Offered ERS and number of sales contracts sold to date (provider survey)

	Loan model	Sale model	Sale and lease back
Number of current product offerings	1,920	12	2
Total number of ERS contracts sold	123,998	8,501	0
of which are still alive	108,357	4,493	0

Note: Answers to: "Which ERS do you offer and how many sales contracts have been sold to date?"

Table 41: Product name by number and euro (provider survey)

Product name	Number	Euro, 1000
Drawdown Lifetime Mortgage	2163	21,6420
Lump Sum Plus Lifetime Mortgage	800	86,919
Hypotekspension	750	50,000
Lifestyle, Lump Sum, Interest, Voluntary	823	42,000
Unknown	300	27,000
Prestisenior	200	18,000
Hipoteca Inversa Vitalicia	16	5399
Deutsche Leibrenten	20	5000

Product name	Number	Euro, 1000
Crown Equity Release Reversion plan	30	3000
prestito ipotecario vitalizio (PIV)	18	2678
renta dożywotnia (lifetime annuity), umowa dożywocia (a contract for life)	13	1040
Bridgewater Equity Release (Maximum Release, Flexible Release, Secured Escalating Release)	20	700
Immobilienrente	3	114
Zustifterrente	8	0.003
Drawdown	1610	0
Pension Mortgage	0	0
Property Plan	0	0
Seniors Money Lifetime Loan	0	0
StifterRente; known as "HausstifterRente" and "ZustifterRente"	0	0

Note: Answer to: "Product name" and "How many of these ERS products have been sold in 2016?"; Some intermediaries that responded are not included e.g. if they are servicing different banks with different products.

The products in Table 41 are listed in the order of decreasing sales, which are expressed in 1000s of euros. For some products (e.g., Zustifterrente) an erroneous amount is likely to have been supplied by the survey participants. In certain cases, no product name or no concrete name was provided.

Table 42 provides an overview of the data provided in the case studies on the ERS markets.

Table 42: ERS schemes that exist in the 6 countries of our case studies

	Countries					
	Germany	Hungary	Ireland	Italy	Netherlands	United Kingdom

Types offered	In 2008, one Sale Model ERS, one Loan Model ERS (Case Study DE, 6)	Currently no ERS products offered (Case Study HU, 4)	Loan Model ERS (Roll-up Lifetime Mortgage and Interest Only Lifetime Mortgage and Sale Model ERS (Home Reversion) (Case Study IE, 4-6)	In 2005, one Loan Model ERS product (Case Study IT, 2) has been launched through the law no.248. With the law no. 44 and the administrative order no. 226 of 2015, the product has been modified and the rules better specified.	LoanModel ERS and Sale-Model ERS (Case Study NL, 5)	Loan Model ERS (Lump-Sum Lifetime Mortgages, Drawdown Lifetime Mortgages, Interest Only Lifetime Mortgages, Enhanced Lifetime Mortgage) and Sale Model (Home Reversion) (Case Study UK, 5-7)
Number of providers	4 providers	3 providers before the financial and economic crisis municipalities offering ERS-like constructions	18 providers registered with the Central Bank (six designers of ERS, twelve intermediaries) (Case Study IE, 4)	4 providers (1 provider until global financial crisis, the other 3 came about after the law of 2015) (Case Study IT, 3)	1 provider of Loan Model ERS, several providers of Sale-Model ERS	24 providers (21 Lifetime Mortgage providers, three Home Reversion providers) Case Study UK , 6-7) In 2015, seven in ten new ERS plans were Drawdown LM (ERC 2015; Case Study UK, 6)

Source: Own compilation based on the case studies.

7.2 Providers and products in the six EU member states

7.2.1 Germany

Overview of market situation

In 2016, the four providers that we believe are currently or were recently marketing ERS in Germany are the Deutsche Leibrenten AG, the VMT Immofinanz, the R+V Versicherungen and the Deutsche Kreditbank (DKB). One savings bank, the Sparkasse am Niederrhein, has offered the groups product 'S- Rentendarlehen' since 2007 but volumes are very small (e.g. as of April 2009, period of the latest data available, 12 contracts had been signed and 300 potential interested parties had been considered). In addition to these providers, a number of foundations, especially in the Southern parts of the country provide regionally limited offerings such as the Zustifter-Rente product from the Stiftung Liebenau or the Hausstifter-Rente offered by Caritas Krefeld. Only one of these providers was one of the two providers of ERS that were active in Germany in 2008 and one should consider ERS as still very much a niche product.

From this limited number of providers, the R+V-Versicherung, a relatively new entrant to the market in 2011, offered its "ImmobilienRente" reverse mortgages on a pan-regional basis with a developed distribution channel through both the cooperative banks and the Building Society Schwäbisch Hall. This provider was judged as having improved the professionalization and innovative character of ERS in Germany and its product was built with the combination of a number of components: the loan; two pension insurances; and one insurance policy for subsidy loss (Brozio, 2012). A monthly gross annuity is financed by the loan until the consumer reaches his 86th birthday after which the first private pension insurance takes over the monthly payments thereafter with the second pension insurance covering the interests from the 89th year onwards.

The Sale Model ERS is preferred by the non-profit providers (foundations) and housing specialists whereas the Loan Model ERS by the financial institutions. The Liebenau Foundation, which is specialised on meeting elderly people's needs generally, markets Sale Model ERS with an average annual flow of approximately 10 new contracts per annum, and thus while having shown sustained activity over time, has little significance to the German market. It is also important to distinguish the product manufacturers from the providers who in Germany often sell the products of only a few manufacturers in an intermediary capacity. Active since 2008, the Deutsche Grundstücksrente is one such provider that distributes products designed by the Deutsche Kreditbank (DKB) among its 3 different product offerings: Grundstückskapital; Immobilienrente; Leibrente.

Loan Model ERS products in Germany are based on fixed-rate mortgages in line with the general structure of the German mortgage market (see chapter on Mortgages). Funds released may take the form of lump sums only or monthly instalments as well. However, while certain providers have attempted to introduce an annuity payment in addition to their lump sum options, these are made difficult by both the cross-over risk that stems from longevity risk, and also by the administrative workload and thus reduced associated returns. The majority of current ERS products are of the Sale Model variety led over recent years by new housing professionals. These firms distinguish themselves through the primary purpose of their business model which is to acquire property and make use of synergy effects between the ERS and other property related business propositions such as provision of extra maintenance or care services etc. One such provider of Sale Model ERS is the Deutsche Leibrenten Unternehmersgruppe that targets its services to two of the three million homeowners over 65 that have a monthly retirement income of less than EUR 1000 (Düsseldorf Manager, 2013).

Two other providers, one government-owned bank (Investitionsbank Schleswig-Holstein) and an intermediary (Immokasse) launched their products in 2010 and 2007 respectively, but the first appears to have discontinued its offering after an extended pilot period in its region of competence, whereas Immokasse ceased its activities when it became insolvent in 2013 (attributable to poorly performing B2B activities alongside its consumer services and difficulties in securing additional financing from initial and new investors). Immokasse was active as a broker in this market and thus existing consumer contracts continued to perform through the DKB AG who offered the product ImmoRentenPlus as a lump sum payment.

Several providers also offer a product that go under the more generic name of "Rentenhypothek". These for example, were sold by a previous provider of Loan Model ERS, the insurance undertaking Hannoversche Lebensversicherung, that started marketing this type of product after their decision to discontinue the former ERS product after only one year on the market (due to too many small processes leading to excessive cost). However, we do not treat these types of products as ERS because they are essentially an ordinary mortgage designed for retired people, who are required to pay monthly interest on their reverse mortgage. The definition of ERS used as a basis for this project (as specified in iff 2010) means that any obligation for outward cash flows during the lifetime of the product means that it does not meet the requirements of an ERS. This is despite the fact that the construct like reverse mortgages is arranged so that no loan amortisation is required until death or departure from the property. Lastly, Germany also has a system of life annuities (Leibrente) regulated by the civil code (§§ 759 ff. BGB) but these

arrangements between private individuals (usually between family members) are not very significant and do not form part of mainstream financial services, despite the involvement of some financial institutions in facilitating such transactions as brokers not product manufacturers in the past, such as the case of the HVB Bank in the Munich region.

Perspectives from stakeholder interviews

The market

The following description is based on interviews with 11 stakeholders (see Annex for more details).

The market for ERS products is described as a niche market, with rather few providers and an increasing but still low number of potential buyers. After a number of large providers withdrew three or four years ago, there are very few suppliers in this market today.

The product of the reverse mortgage has disappeared completely from the market and with them the classic financial services providers, such as credit institutions and insurance companies. The decision to "opt out" has often been taken at the top of the company's management team, before the implementation of the Residential Property Directive. The reasons given are that pawnbroking is not a primary banking business and that the economic returns in this segment are very modest. The Residential Property Directive is also considered by the interviewed bankers to be the biggest obstacle to a possible reintroduction of a reverse mortgage.

Currently, only different life annuity models are available. In many cases, with the exception of foundations, companies in this segment are intermediaries. The intermediaries bring together investors (mostly in the background) and interested property owners.

On the demand side, it has been evident for years that the vast majority of German property owners have no particular interest in the topic of real estate pensions. There are two main reasons for this. On the one hand, many households with real estate holdings currently also have a relatively large amount of financial assets.³⁷ On the other hand, most property owners have a very special (intensive, close) relationship to their own property.³⁸ It is difficult for them to imagine that they will be able to separate themselves from their property or that they will have to burden it again or further when they retire.

There are primarily two groups of senior citizens who are interested in ERS: those with a low income and those with larger assets (usually several properties). In the end, however, many interested parties reject the offers because the offered sums (pension or lump-sum payments) are considered to be too low.

Further reasons were given for the fact that ERS in Germany is a niche market. Retirement is the moment when many households consider the possibility of using their own property (increase in income). As a rule, German employees retire at the age of 64.³⁹ The financially meaningful beginning for a real estate annuity, so the consensus opinion of all interviewed persons, is however an entrance age of over 70 years. So there is a gap of up to 10 years, especially if retirement starts even earlier. In addition, the selection of properties considered suitable is handled very restrictively by providers and/or intermediaries. Offers that make financial sense are only submitted by the providers or intermediaries for properties that have a sustained positive expected value development.

³⁷ Deutsche Bundesbank (2016), Vermögen und Finanzen privater Haushalte in Deutschland: Ergebnisse der Vermögensbefragung 2014, Deutsche Bundesbank Monatsberichte März 2016, p. 72

³⁸ „Macht Wohneigentum glücklich?“ Immobilien und Glück in Baden-Württemberg, Stiftung Bauen und Wohnen, eine Studie im Auftrag der: LBS Stiftung Bauen und Wohnen, Prof. Dr. Frank Brettschneider, April 2015.

³⁹ "Deutsche gehen wieder früher in den Ruhestand" dpa, 20.08.2016, <http://www.t-online.de/finanzen/altersvorsorge/id78748996/rente-mit-63-deutsche-gehen-wieder-frueher-in-den-ruhestand.html>.

In a meeting with 9 stakeholders, market barriers of ERS products in Germany were discussed. Some problems mentioned are that banks are not allowed to bear longevity risk, that prohibition of compound interest complicates the calculation of reverse mortgages and that there exists no state guarantee which prevents the home-occupants from over-indebtedness. The withdrawal of the classical suppliers of financial services from this market was explained by the stakeholders by the high risks for providers, unattractiveness for consumers, low public awareness, intensive consultancy, few providers, lacking transparency/base documents (see Annex: The German Stakeholder Focus Group Round of Talks (Summary)).

The products

The following description is based on interviews with 11 stakeholders (see Annex for more details).

In Germany, three different ERS products have been offered in recent years. As a rule, the models offered in Germany provide for a lifelong right of residence in one's own property, as well as a lump sum payment and/or pension payments.

According to the interviewees, the topic of lifelong pension payments plays only a very minor role. Many customers are more interested in a one-off payment or temporary pension payments. Possible pension payments for a lifelong agreed pension payment are significantly lower than for pensions paid for a limited period of time, even if the time limit should be 10 or more years - e. g. up to the age of 85.⁴⁰

The products offered include the reverse mortgage, the senior citizens' mortgage and the life annuity (in its various forms). A prerequisite for a successful contract conclusion is almost always:

- Only almost debt-free real estate is accepted,
- the prospective customers should have reached the age of 70,
- the property should be in good condition, and
- the situation leads us to expect a corresponding increase in value.

The above-mentioned criteria also apply to the life annuity offers of foundations, but in a much more moderate form.

In most cases, the question of responsibility for the repairs and repair measures to be carried out is a matter of "pure negotiation". In the case of foundations, this will normally be regulated by the foundation itself, otherwise providers will prefer models that see the customer as having a duty. In all cases, possible expenses for repairs and maintenance are estimated over the entire term of the contract and the calculated payout is reduced by this value.

The real estate annuity, regardless of the model, is a highly consultative product. There is no truly standardized offer on the German market. The question of determining the value (amount) of the property alone usually leads to lengthy discussions. In addition, a whole range of contract details are a matter of negotiation for many providers and/or brokers.

The target group itself, people beyond the age of 70, are more likely to be described as a rather complex group of people to be advised with much time. It may take three quarters of a year from the request to completion. The duration of counselling is likely to be increased by the fact that many providers/intermediaries want to involve potential heirs in the discussions in order to prevent possible future disputes.

The reverse mortgage has (almost) completely disappeared from the German market. The few existing offers, mostly from medium-sized savings banks and R+V banks, are only made in exceptional cases and to particularly good (long-term) customers. The reverse

⁴⁰ 85 years is statistically, currently, the life expectancy of men.

mortgage is the product that provides for the sale of the property only at the end of the contract term or in the event of the death of the property owner. However, it is also usually the model with the highest discounts (from the real estate value). In addition, the longevity risk must be covered by a traditional pension insurance for regulatory reasons. Both these circumstances imply that the pension payments offered under this model are usually very low, compared to the other models, and in most cases the lowest.

The senior citizens' mortgage is only granted, if at all, by a few banks and then only to very creditworthy (high income, large assets) elderly households. In addition to the accrued interest, a 1% repayment must always be made. This model does not, for the time being, provide for pension payments. Of course, the disbursed amount (credit) can be paid into a small annuity insurance scheme that starts immediately.

The life annuity model is offered in various versions. On the one hand, these differ in the type of investor. Private investors are usually involved, but sometimes also foundations. Private investors are generally interested in short to medium-term returns, whereas the business policy of the foundations is oriented more towards the long term. The business model of private investors almost always envisages the resale of the real estate at a later date. Foundations often use the real estate for their own purposes.

At the beginning of the contract period, the sale of the property or land is always the point of sale (hereditary lease). Payments are often made in one sum - if pension payments have been agreed upon, they are usually made with a time limit (time pension). According to the interviewees, this procedure is in line with the customer's wishes.

Many providers/brokers of life annuity products want to avoid the problem of insuring the longevity risk, because the classical solution (acquisition of private pension insurance) does not appear to be reasonable for cost reasons. However, if a lifelong annuity is agreed, the investor is responsible for the payments and the customer is usually solely responsible for the risk of default.

The handling in case of premature death (during the term of the contract) of the customer differs from supplier to supplier. Some providers are supposed to pay nothing in this case (the property is sold and there is no more money), others continue to pay the pension amounts for a pre-determined period of time and others continue to pay the agreed pension payments as well as the residual value for the unused right of residence (one-time payment) over the entire contract period.

7.2.2 Hungary

Overview of market situation

The so far only available study regarding ERS products in Hungary is the "Country Study on Equity Release Schemes in the EU Part II" provided by Reifner et al. (2009b). ERS disappeared from the Hungarian market in the slipstream of the financial crisis of 2008. Our inquiries in the most relevant Hungarian economic journals did neither provide more detailed information nor a clarification for the exact reasons of the fail of the ERS-products offered in Hungary. According to this fact, our inquiry depends to a high degree on the results of research in press releases respectively serious newspapers. The following section provides some basic information regarding those ERS products that have been offered.

ERS products have been provided in Hungary at the beginning of the millennium by the providers OTP Életjárdék, Hild Zrt. and the FHB Életjárdék. Reifner et al. (2009b, p 73) regarded the existence of ERS as "no surprise" because of "high unencumbered home ownership by the elderly" (...) and "low pension income". They were regarded as "the sole option to homeowners for extracting equity for purposes other than buying or repairing owner-occupied homes." The instructive study of 2009 differentiates between loan- and sale model ERS types (Reifner et al. 2009a, I; for Hungary see Reifner et al. 2009b, p 73f), which have been offered under the commercial terms of "old-age mortgage annuity" (Hungarian: *Időskori jelzálog járadék*), which is the loan model, and the "eternal annuity" (Hungarian: *Örökjáradék*) or "lifetime annuity" (Hungarian: *életjáradék*), which both are Sale Model types of ERS.

Sale-model ERS have been provided by OTP, which had two types in its portfolio. Both were based on a purchase and sale agreement (Reifner 2009b, p 74). The other provider of sale-model ERS was HILD, which provided a life annuity. Though income generated by sale of real property is subject to taxation, in Hungary there exists a tax incentive regarding the taxation of profit based on the years between the acquisition and the sale. According Act CXVII of 1995 on Personal Income Tax after 5 years, no profit is taxable. The "FHB Life Annuity" was the only provider of a loan model ERS. The Loan model ERS has been an advantageous type from the point of view of tax treatment across generations, because they are legally treated as loans and hence not been subject to income-tax. This is an advantage for heirs as well, "if the real property is not inherited as free-of-encumbrances, but encumbered with a mortgage" (Reifner, 2009b, p 75).

There is neither a legal definition nor a product name for ERS in general in Hungarian law nor have there been special laws for ERS. They are regulated under the Civil Code. According to section 3 (1) and (3) of Act No. CXVII of 1996 on Credit Institutions and Financial Enterprises, providers of loan models had to draw a license and have been supervised by the Financial Supervisory Authority (which has been taken over by the Hungarian Central Bank in October 2013) (Reifner, 2009b, p 75). Sale model products have not been subject to supervision. Since January 2015 only personal life insurance companies are allowed to offer lifetime annuity services⁴¹ – though, according to our inquiries, currently there is no active supplier of such products in Hungary.

The HILD Zrt. was the first player offering ERS programs in 2005. In 2009 Hild Zrt. has been in the focus of the Hungarian Competition authority due to misleading advertising, but according to our information this had no serious consequences (GVH, 2009). The "életjáradék" program stopped closing new contracts in 2009 due to the effects of the financial crisis.⁴² According to the information of creditinform it holds a volume of 6.810 properties.⁴³ The OTP Életjáradék and FHB Életjáradék followed to offer ERS programs in 2006 – and shelved them in 2009.⁴⁴ The OTP Életjáradék Zrt. belongs to the OTP Group, the most important player on the Hungarian banking market. It still has about approximately 14,000 customers, but will not close any new contracts.⁴⁵ Although there is no more detailed information accessible, the background of termination of the ERS programs is the global financial crisis in 2008/2009, from which the Hungarian financial markets suffered badly. Prices for real equity decreased (see further details in subsection 4.). For ERS providers this meant a serious problem because monthly rates had to be paid independently from the price development on the housing market. It took a long time for

⁴¹ Legal source: 2014. évi LXXXVIII. Törvény a biztosítási tevékenységről; See the official information of the Hungarian Central Bank <https://www.mnb.hu/fogyasztovedelem/dontenem-kell/biztositas/eletbiztositasok/jaradektipusu-eletbiztositasok>; see also the respective report of the *hvg* magazine: http://hvg.hu/vallalat/vezeto/20141114_Hetmilliardos_veszteseket_termelt_az_FHB See also the respective notice of Origo (2014).

⁴² See e.g. NOL (2015). However, the homepage of Hild Zrt. depicts no changes, see <http://www.hild.hu/index.php?kat=ceg> (accessed March 6, 2016).

⁴³ See <http://ceginformacio.creditreform.hu/cr9311213589>.

⁴⁴ See the short overview <http://nol.hu/gazdasag/tonkrement-a-lakasert-eletjaradek-program-1507579> (accessed June 20, 2016).

⁴⁵ For more information see the Hungarian Banking Association, <http://www.bankszovetseg.hu/tagjaink/otp-bank-2>, the information given at the Hild Zrt. website <http://www.hild.hu>; the journal *heti válasz* <http://valasz.hu/uzlet/nem-kivantak-joslasokba-bocsatkozni-de-eleg-pesszimistan-latjak-a-helyzetet-55270> and the online accessible decision of the Hungarian Central Bank (H-EN-I-165/2015): http://alk.mnb.hu/data/cms2431701/keksz_11201464.pdf.

the Hungarian housing market to recover. Estate prices increase only since 2015.⁴⁶ Detailed analyses are still missing and we base our insights on the few notices given by the providers and a few serious business- or political journals.⁴⁷

In November 2015, the FHB mortgage bank reported to sell the FHB Életjáradék Zrt. to the Hungarian National Asset Management Agency for a symbolic sum of one million Forint (Dötsch et al., 2018).⁴⁸ Due to the resolution of the Hungarian National Bank (Resolution number H-EN-I-165/2015) it has been deleted from the list of official financial service providers. The bank referred to the new legal rule according to which only insurance companies are allowed to offer lifetime annuity services.⁴⁹ Besides the provision of ERS schemes through OTP, HILD and FHB there were some Hungarian municipalities offering ERS-like constructions. A financial portal reporting on the changes in regulation in 2015 points to the example of the V. District of the capital Budapest, which paid a lump sum of 15-20 percent of the actual market price and a monthly amount of 2,1-4,0 per thousand.⁵⁰ According to our inquiries there is no general data accessible regarding design, volume and market share of those municipal programs. Though the statistical authority records the municipal activities regarding property (KSH 2015a, 2015b, 2015c, 2015d), it is not transparent which role ERS-like life annuities play in the real estate management of the Hungarian municipalities.

7.2.3 Ireland

Overview of market situation

ERS have existed in Ireland since the 1980s, and the financial services industry is now relatively developed in terms of lending to those homeowners who may not have a satisfactory future income stream. However, the financial crisis did result in an evaporation of liquidity and fresh capital in this sector and this has yet to be reignited by fresh ERS lending. Before 2008, the market for ERS appeared to flourish with 27 providers actively supplying the market with mainly a loan model ERS (25 of them) and the rest using a sale model ERS (Reifner et al., 2009b).

However, the 2008 global financial crisis and the subsequent collapse in house prices over the past few years have seen many players leaving the market after the 2008 global financial crisis. At present, there are 18 providers registered with the Central Bank of Ireland. These providers are mostly retail credit companies (non-deposit taking lenders) or specialist home reversion firms but not usually banks. However, only 6 of them are true designers of such products (Dilosk Limited, Haven Mortgages Limited, Secured Property Loans Limited, Seniors Finance Ireland Limited, Seniors Money Mortgages (Ireland) Limited, Springboard Mortgages Limited), while the rest of them are financial intermediaries and not providers of loan capital. Only two of them are listed as Home Reversion firms (Shared Home Investment Plan Limited and Residential Reversions Limited) (CBI, 2016). There appear to be no current market offerings of ERS products and companies in this domain are closed to new business (Irish Times, 2015).

⁴⁶ See the instructive compilation based on data of the Hungarian Statistical Authority provided by Global Property Guide from June 2015, <http://www.globalpropertyguide.com/Europe/Hungary/Price-History> (accessed march 7, 2016).

⁴⁷ Ibid. We surveyed the most important Hungarian journals as e.g. *Acta Oeconomica*, the *Hitelintézet Szemle*, the *Pénzügyi Szemle* or *Society and Economy* for the relevant period.

⁴⁸ See the official press release of the FHB: https://www.fhb.hu/Kozlemenyek/Kozlemeny_141229.

⁴⁹ Legal source: 2014. évi LXXXVIII. Törvény a biztosítási tevékenységről; See the official information of the Hungarian Central Bank <https://www.mnb.hu/fogyasztovedelem/dontenem-kell/biztositas/eletbiztositasok/jaradektipusu-eletbiztositasok>; see also the respective report of the *hvg* magazine: http://hvg.hu/vallalat_vezeto/20141114_Hetmilliardos_veszteseket_termelt_az_FHB

⁵⁰ See <http://www.azenzem.hu/cikkek/lakasert%ADeletjaradek%ADfelejsuk%ADEl/2179/>.

Retail credit firms and Home Reversion firms other than banks are authorised to supply ERS products in the Republic of Ireland under Section 31 of the Central Bank Act, 1997, as amended (CBI, 2016). The Central Bank Act 1997 provides a definition of such firms as 'Retail credit firm' means "a person prescribed for the purposes of paragraph (g) of the definition of credit institution in section 3 of the Consumer Credit Act 1995, or any other person who holds itself out as carrying on a business of, and whose business consists wholly or partly of, providing credit directly to relevant persons".

CBI defines a Home Reversion firm as a "person carrying on a business of entering into home reversion agreements". A home reversion agreement is defined as a contract between a vendor and a home reversion firm that provides, i) a share in the property of a vendor to the home reversion firm for a discounted sum and ii) the right to live in the residence either for a lifetime of a vendor or until the occurrence of any other unfortunate event specified in the contract.

According to the Competition and Consumer Protection Commission (CCPC, 2016), there are mainly two kinds of schemes that have been available in the Irish market: Home Reversion schemes and Lifetime Mortgages.

In general, most products sold in Ireland did contain a no negative equity guarantee which eliminated the risk of a negative equity at the time of selling a house but did add some cost.

Perspectives from stakeholder interviews

7.2.4 Italy

Overview of market situation

Only one type of ERS is currently available in Italy: the *presitito vitalizio ipotecario*, which is qualified as a Loan Model. This product is a lifetime mortgages, a financing secured by mortgage of residential property that enables the owner to convert into liquidity part of the economic value of the property. It is structured as a medium or long loan contract between individuals aged 60 or older and banks, credit institutions or financial institutions under the supervision of the Italian Banking Law⁵¹ secured by first rank mortgage on residential property. According to this financial product, credit can be granted with annual capitalization of interests and costs, and reimbursement in a lump sum at the end of the contract. As such, this financial product is regulated by legislation. The regulation framework that rules the offering of the ERS tool has been updated in 2015 with the Law no. 44 on the 2nd of April and further regulated in 2016 with the Administrative order no. 226 presented on the 22nd of December 2015 but activated on the 16th of February 2016.

The subscriber will not pay any costs during the contract period and the interests will be capitalized together with the capital. At the death of the subscriber either principal and capitalized interests will be paid back to the bank by the heirs or the bank will proceed by selling the house that has been mortgaged by the bank.

The main aim of this product is to devote liquidity, proportionally to the value of the house that represent the wealth of the over 60, to satisfy the consumers' needs or to provide an economic help to his family members. The owner continues living in the property. Reimbursement of capital plus interests and costs occurs at the end of the contract. Interests and costs are capitalized on a periodic basis. In Italy, individuals ask for ERS products for four main reasons: the provision of an economic help for their children or to other family members, the integration of their income, the reimbursement of a mortgage or a debt.

From 2005 - year in which this product was formally introduced in Italy to homeowners over 65 whose housing equity exceeds €70,000 - to 2013 only a few credit institutions had been offering home equity conversion products. In particular, Deutsche Bank's

⁵¹ See art. 106 Legislative Decree of 1st Sept. 1993, no. 385.

“PatrimonioCasa” and Euvis’ “Prestito Vitalizio” were available only as lump sums, while Banca Monte dei Paschi (MPS) di Siena offered “PrestiSenior” to those over 70 as either a lump sum or an annuity for a maximum of 20 years. At the beginning of 2015, only MPS offers an ERS product. In fact, Euvis (intermediary specialized in ERS Loan products, in cooperation with JP Morgan) ceased to exist in 2012, when JP Morgan closed the partnership for the changes in US regulation. Deutsche Bank stopped to deliver these products because of the financial crisis. In order to stimulate the demand for this kind of contract, significant tax breaks have been introduced recently. They are represented by the exemption from registration, from stamp duty, property tax and exemption from taxes on “concessioni governative”.

After the Administrative Order no. 226 of December 2015, that followed the Law no. 44 of 2015 and was activated in 2016, other three credit and financial institutions started offering home equity conversion product. In chronologic order from the eldest to the youngest offerings the institutions are: Unicredit proposed “Valore Casa”, Intesa Sanpaolo offered “PerTe Prestito Vitalizio” and finally Banca Popolare di Sondrio presented “Prestito Ipotecario Vitalizio”.

In what follow we present in a nutshell the products.

“PrestitiSenior” is the first ERS product introduced in Italy from Monte dei Paschi di Siena (hitherto MPS) for people 60+ who can apply for the product only in the local branches of the bank. The bank offers 2 types of Loan Models with a total number of ERS contract sold and still alive of 390. The two types of loan differ in the reimbursement: one with annual capitalisation of interests and expenses with reimbursement of the debt in one single tranche of the interest accrued at the death of the homeowner; another with annual payment of interest and expenses accrued while the debt is reimbursed in one single tranche at the death of the homeowner. It allows being able to stay in the dwelling, regardless of the loan term, a fixed interest rate and sale of the dwelling when the occupier leaves the dwelling. The dwelling needs to follow the structural eligibility constraints (i.e. residential use and first priority mortgage) and the co-habitants need to belong to the heritance lines in order to be co-holder of the product. Last but not least it offers a guarantee against negative equity and it allows free early repayments.

“Valore Casa” from Unicredit is a Loan Model product that comes in two versions in terms of reimbursement and interest rate. For what concern the reimbursement, the home-owner can choose between the annual capitalisation of interest rate and expenses or the annual payment of interest and expenses. In both cases the debt is reimbursed at the death of the home-owner (or of the eldest co-holder of the contract) to his/her heirs. In terms of interest rates, the offer of Unicredit has two versions: the first is at fixed interest with a capitalisation of the annual interest (and expenses), the second is with a variable interest rate with an interest monthly plan payment. “Valore Casa” has further limitation related to the age of the “consumers” that needs to fall in the range of 65-85 years. Finally, it offers a guarantee against negative equity.

Intesa Sanpaolo offered “PerTe Prestito Vitalizio” a Loan Model product with a total number of ERS contract sold and still alive of 204. It comes with fix interest rate and with two reimbursement options: annual capitalisation of interest and expenses, or annual payment of interest and expenses. In both cases the debt reimbursement will be acquired at the end of the home-owner (or co-holder of the contract). The bank can ask for the reimbursement of the capital in case of death or in case of dwelling disrepair or of a transfer of the property rights of the dwelling. The product allows free early repayments and it offers a guarantee against negative equity.

Prestito Ipotecario Vitalizio is the ERS product of Banca Popolare di Sondrio that is a Credit Institution. The bank offers 2 types of Loan Models with a total number of ERS contract sold and still alive of 18. The two types are the same of MPS product: the interest payments are made either at the termination/sale of property or throughout the period annually. In both cases the debt reimbursement is due to the heirs after the death of the home-owner. The products fall under the category of Home income plan with Interest only with fixed interest rate for lifetime. The product allows early repayments with 1% of the cost. The

requirements for the eligibility are linked to the age of the consumer (+65 years old), his/her financial quality (bad credit history, secured loans outstanding, existing first mortgage) and the characteristics of the house (year in which the property was built, type of construction). The supply of the product is guaranteed country-wide.

Table 43: The Italian 'equity release' products for 'the elderly', 2016

Product	Extraction of equity from home	Provision of cash in old age	Interest rates	Provision of a financial service	Provision of strong entitlement to reside	Repayment of equity release from sale of property	Equity Release Scheme (ERS) product
PrestiSenior (by MPS)	Yes	60+	Fixed	Yes	Yes	Yes, with No negative equity guarantee	Loan models
Valore Casa (by Unicredit)	Yes	65-85	Fixed Variable	Yes	yes	Yes, with No negative equity guarantee	Loan models
<i>PerTe Prestito Vitalizio</i> (by Intesa Sanpaolo)	Yes	60+	Fixed	Yes	Yes	Yes, with No negative equity guarantee	Loan models
<i>Prestito Ipotecario Vitalizio</i> (by Banca Popolare di Sondrio)	Yes	65+	Fixed	Yes	Yes	Yes, with No negative equity guarantee	Loan models

Source: own research.

Perspectives from stakeholder interviews

We found unanimity across the providers in the identification of the risk factors associated with the products. All providers have rated high risky several items like the house valuation, the consumer's longevity and the ability to sell the property. MPS identified as risk factors also reputation moral hazard and interest rate, probably justified by the marital status characteristics of its buyers (42% of couples, 58% singles and 45% of female).

The stakeholders highlighted that among the consumer risks those related to family dispute over the inheritance were the earnest ones.

Among the main challenges or constraints that each provider has faced while entering the markets three were considered by the majority: Insufficient return obtainable (at average risk), timing of cash inflows and outflows and the property market expertise and/or diversified portfolio.

The providers' opinion with respect to the ERS market revealed both an existing and potential demand of the products mainly motivated by the demographic trends of an aging population, the lack of other mortgage solution and the shortfalls of the Italian pension

system. However, they found that the barriers to the development of the market should be addressed to the regulation (Solvency II/ Basel II), to the limited access to funding, to the cultural resistance of the consumers towards the financial use of their house and finally to their lack of financial knowledge. In order to tweak some of those barriers, the providers would benefit from the State interventions on specific issues like a support for no negative guarantee, specific tax relief for both clients and providers and finally a standardization of the product framework on European basis.

7.2.5 The Netherlands

Overview of market situation

Today, several products are offered as types of mortgage loans.

The *Florius Verzilver Hypotheek* is a reverse mortgage (*omgedraaide hypotheek*) that is available for elderly aged 60 years and older, offers monthly interest added to the mortgage loan, with a maximum mortgage of 55% of market value. It allows being able to stay in the dwelling, regardless of the loan term, a fixed interest rate and sale of the dwelling when the occupier leaves the dwelling. Last but not least it offers a guarantee against negative equity, under certain conditions. Up to 30% of the value of the dwelling can be protected for the inheritance. This loan model ERS is described as an inflexible product, as it cannot easily be changed. For example, a mortgage loan that has not yet been repaid would have to be combined as interest-only loan with this reverse mortgage (*Consumentenbond*, 2016).

The *Keuzeplus hypotheek* (Choiceplus mortgage) mortgage offers borrowing from housing equity whenever required, up to a limit; a variable interest is to be paid on the amount of the loan taken out. In that sense it looks like this loan can be characterized as a credit mortgage or a revolving credit or checking account mortgage.⁵² To be left with negative equity is possible with this type of loan, albeit the sale of the dwelling is not enforced, once the loan maximum is reached (Rabobank, 2016a).

SvN *Stimuleringsfonds Volkshuisvesting Nederlandse Gemeenten* (Stimulating Fund Housing of Dutch Municipalities) is a fund which provides, 'cheap' loans to first-time buyers. The so-called *blijverslening* (stayer's loan) has been introduced in 2016. SvN will manage the loan for the municipality that finances the loan. The municipality will be able to offer the loan as a mortgage loan or as a consumption loan. In the former case, it could be designed as a reverse mortgage. The municipality will also determine other loan conditions. SvN will pay the builder. The senior will therefore not receive the money. The senior should use the loan for 'small' adaptations of the dwelling in order to be able to remain in the home.

Several products can be categorized as sell and stay types of product. In table 5 they are called a financial service, as an illiquid asset is converted into (some) liquidity. Before Dutch law, however, a sale-and-leaseback contract does not classify as a financial product (Blok, 2015).

The first of these products is called *Direct Zorgeloos Genieten* (Direct and Carefree Enjoying). Is it offered by Lommer Huizen and does not seem to be targeted on the elderly only. The website indicates that it is available to everyone who would like to use the equity (e.g. for a divorce to buy out the partner). For the sale of the dwelling to take place to Lommer Huizen, the equity needs to be at least 30% (or other savings or an endowment mortgage (see section 5.2) need to be in place) and the value of the dwelling between EUR 200000 and EUR one million. A contract term applies to the deal which encompasses the

⁵² According to the *Consumentenbond* (2016), a credit mortgage is non-age specific flexible product, where take out of mortgage sums is possible whenever needed. It is offered by: Florius (maximum of 50% of house value), ING (25%), Rabobank (50%) and SNS Bank (66%). Interest is to be paid at a variable rate. It could be the first or second loan; as second loan it is usually taken out at the same bank as the first loan.

occupant paying rent. At the beginning of the contract, part or all of the rent is to be paid in advance. Lommer Huizen will take care of the maintenance of the dwelling.

At the end of the contract three options are offered. When the house is sold to someone else, the former owner-occupier receives the rest of the equity (value increase). The former owner-occupier can continue to rent, but pays the full rent. Third, the former owner-occupier buys back the dwelling and receives the rest of the equity (value increase).

Zilver Wonen Fonds (Silver Housing Fund) offers to buy dwellings with a price of at least 150000 Euros in seven of the twelve provinces of the Netherlands (those that are not threatened by a shrinking population). The elderly homeowner who will sell the home will get at most 80% of the value of the dwelling and will rent the dwelling after the sale. The annual rent amount will be 5.5% of the market value of the dwelling, indexed with inflation (CPI). *Zilver Wonen Fonds* is a bond fund in which investors can participate with an amount of 100000 euro. The bond finance is used by the fund to buy dwellings of elderly homeowners. The fund has been active for 2 years, has received 2500 requests of which 300 are eligible, while 40 dwellings have been bought (*Zilver Wonen Fonds*, not dated).

Verzilverblijvast (Convert me already into cash) offers a sell and stay scheme to homeowners (breadwinner) aged 55 years and over. It offers to pay 90% of the market value at the start of the contract and 10% at the end. The seller pays in advance the rent for the first year. This amount is deducted from the 90% lump sum. Rent is calculated as 6% of market value of the dwelling and adjusted to inflation (CPI).

Thuisborg's (Homeguarantee) offers the *Woningwaarde Verzilverblijvast* (dwelling value cash conversion plan). It is a sell and stay type with leaseback called sale-and-leaseback product on the website. *Thuisborg* shows a number of example situations on the website, where homeowners get a lump sum based on the taxable value of the dwelling in the beginning when the sale takes place, and also another amount at the end. At the end the original homeowner also shares in the value increase of the dwelling. The examples do not mention a possible value decrease.

Thuisborg aims to buy 20-30 dwellings this coming year. It also keeps dwellings on offer, if it does not acquire them and allows larger private investors to make an offer via the website. If investors are considering a participation – from 80000 to 150000 Euros – *Thuisborg* offers the option to directly buy a house or choose for the right of first mortgage. For smaller investors *Thuisborg* offers fixed-annual interest participations for 1000 to 2500 Euros. If desired, the investor can choose additionally for inflation protection or an extra return for the price increase on the Dutch housing market.

Grondvrij (Landfree) acquires the land from the homeowner who will remain owner of the dwelling for as long as (s)he wants and who will pay a rent (4%) for the land use, fixed for a period of ten years at a time. The homeowner or his/her successor will be able to re-acquire the land.

Perspectives from stakeholder consultation

At this moment, the number of providers of equity-release products and sale-and-lease back constructions in the Netherlands is rather limited. Nevertheless, the interest in such products seems to be increasing, related to the greying population and the increasing demand for care. Consequently, new initiatives are popping up regularly. The *Consumentenbond* (consumer organization) has published reviews of some equity-release projects on its website. However, the comparability of the different products is difficult. A product that meets the criteria of the *Consumentenbond* regarding consumer protection seems to be lacking. The interest rates of housing equity release products are sometimes much higher than the ordinary interest mortgage interest rates which makes such products less attractive for consumers. Sale-and-lease back constructions are simpler than financial equity release products and moreover not constrained by the Loan-to-Income norms. However, with such products people generally don't have the guarantee that they can live in their house as long as they want. Moreover, selling your house and renting it back is an emotional decision for many people.

Table 44: The Netherlands: 'equity release' products for 'the elderly', 2016

Product	Extraction of equity from home	Provision of cash in old age	Provision of a financial service	Provision of future liquidity	Provision of strong entitlement to reside	Repayment of equity release from sale of property	Equity Release Scheme (ERS) product
Florius <i>Verzilver Hypotheek</i> ² (by Florius)	Yes	60+	Yes	Yes, up to a maximum mortgage of 55% of market value	Yes	Yes, with negative equity guarantee	Yes, reverse mortgage
Keuzeplus <i>Hypotheek</i> (by Rabobank) ³	Yes	?	Yes	Yes, up to a maximum amount (% of value) agreed	Possible	Possible, no guarantee against negative equity	No, second mortgage
<i>Blijverslening</i> ⁴ (by SvN as manager of the municipal funds)	Yes	Senior	Yes	No, lump sum to pay for home adaptation, not for retirement	Yes	Probably yes, depends on municipal requirements	No, special purpose (reverse) mortgage
<i>Zilver Wonen Fonds</i> ⁵	Yes	65+	Yes	Yes, lump sum of 80% of market value of home	Yes	Yes	Yes, Sale Model with leaseback *
Verzilvermijvast ⁶	Yes	55+	Yes	Yes, lump sum of 90% of market value of home at the start; 10% at end of contract	Yes	Yes	Yes, Sale Model with leaseback *
<i>Woningwaarde Verzilverplan</i> ⁷ (by Thuisborg)	Yes	65+	Yes	Yes, lump sum based on taxable value at the start, rest at end of contract	Yes	Yes	Yes, Sale Model with leaseback *
<i>Direct Zorgeloos Genieten</i> ⁸ (by Lommer Huizen)	Yes	From early retirement on	Yes	Yes, lump sum based on taxable value at start; value	Only if new arrangements are made at	Possible	No, Sale-and-leaseback product*

				increase allows for another lump sum at end of contract	the end of the contract		
Grondvrij ⁹	Yes	?	Yes	Yes, lump sum based on land value	Yes	No, possible if new owner wishes to buy 'back' land	No, indefinite sale-and-leaseback product*

Note: *According to Dutch law, a sale-and-leaseback contract is not classified as a financial product (Blok, 2015).

Sources: Criteria formulated from Reifner et al. (2009a); Florius (2016); Rabobank (2016b); SVn Stimuleringsfonds Volkshuisvesting (2016a); Zilver Wonen Fonds (2016); Verzuilvermijvast (2016); Thuisborg (2016); Lommer Huizen (2016); Grondvrij (2016).

The Global Financial Crises has impacted on a number of previously existing products via the house price declines (Ong et al., 2013; Eyeopen.nl Hypotheekadvies, 2016). One of the products, a sell and stay product, where social landlords and investors would acquire a dwelling (home reversion), has been announcing on its website for some years that it is not investing (Ong et al., 2013; Torenstad *Verzilverd Wonen*, 2016).

The description of the products in table 5 shows that only a few products are on offer, and where numbers about the business are available, they are low. If the information is interpreted correctly, table 5 contains one Loan Model and three Sales Models.

Of the products on offer as identified in table 5, most of the sell and stay options have entered the market recently (Haffner, Ong and Wood, 2015; Ong et al., 2013). An explanation may be found in the historically low alternative returns which may have stimulated groups of investors to enter the sale-and-leaseback market in search for 'better' returns.

Contrary to a mortgage loan or a loan type equity withdrawal product, the sale-and-leaseback types of product are not considered a financial product by Dutch law (Blok, 2015). Such a contract is regulated via the Civil Code (Book 6 on contracts and Book 7 on special contracts). The regulator is the ACM (Authority for Consumers and Markets, 2016). This implies that consumer protection is based on the Law of Consumer Protection (*Wet handhaving consumentenbescherming*) instead of the Law on Financial Supervision (*Wet op het financieel toezicht*) which applies to financial products (Blok, 2015; Overheid.nl, 2016a,b; Rijksoverheid, 2016a; Thuisborg, 2016).

Perspectives from stakeholder interviews

7.2.6 The United Kingdom

Market Overview

The market for equity release products in the UK has existed since 1965⁵³. It is one of the most developed equity release markets in Europe. It offers two types of products – lifetime mortgage (loan model) and home reversion scheme (sale model). Until the late 1990s, home reversion plans were the dominant equity release product. Due to a number of misselling scandals in the late 1980s and early 1990s, they became perceived as unfairly structured in the interests of the providers. The market has since adopted safer practices to ensure consumer protection and introduced a number of lifetime mortgage product

⁵³ Hodge Lifetime (then 'Home Reversion Ltd.') launched the first equity release plan for older consumers in 1965 in the UK. After which, 'mortgage and annuity schemes' or 'Home Income Plans' came into being in 1972 **Es ist eine ungültige Quelle angegeben..**

options to suit consumers' needs. Today, lifetime mortgages contribute to approximately 99% of the market share. Over the years, equity release schemes have grown in importance as concerns grow about pension adequacy and meeting the needs of an ageing population particularly in terms of supporting long-term care funding (Andrews & Oberoi, 2005) and welfare needs (Toussaint & Elsinga, 2009).

Products and providers

A lifetime mortgage permits a homeowner to borrow money against the value of their property, without losing their ownership and without having to make regular repayments. The lender recovers the loan amount only after the customer/homeowner dies or moves out of the house permanently (ERC, 2017). There is a no negative equity guarantee clause attached to lifetime mortgage contracts, which insures customers against the loss occurring from the value of the accrued loan exceeding the value of the house at contract termination. Lifetime mortgages are available to homeowners aged 55 years and above with a minimum house value of £70000. These products feature fixed or variable but capped rates of interest. There are different types of lifetime mortgage available in the UK market - lump-sum, drawdown, fixed repayment mortgage, interest repayment and enhanced lifetime mortgages (ERC, 2017). Lifetime mortgages are by far the most popular form of ERS in UK and, in recent years, drawdown plans have become more popular than any other equity release schemes. In drawdown plans, the customer has the flexibility to withdraw an initial amount and draw down the remaining cash as and when required. Latest findings by the Equity Release Council (ERC) show that seven in ten new ERS plans agreed in the fourth quarter of 2015 were drawdown plans (ERC, 2015). Some of the leading lifetime mortgage providers operating in the industry are Aviva Plc., Legal and General, Liverpool Victoria, Just Retirement More2Life and Pure Retirement. Leading financial equity release specialist advisers in the field are Key Retirements, Age Partnership and Saga (through HUB Financial Solutions).

Home Reversion schemes allow homeowners to sell the full or partial value of the house to a reversion company at a discount but they retain their property rights to live in the house either until death or until a fixed number of years depending on the terms of the reversion contract. At contract termination, the property is sold and the sale proceeds are shared between the customer or their beneficiary in accordance with the remaining proportion of property ownership (ERC, 2017). Home reversion schemes constitute about 1% of all equity release schemes in the UK with lifetime mortgages forming the remaining 99%. Our market research suggests that at present, most reversion providers in the UK service only their existing customers and do not sell new plans due to lack of availability of funds.

The Financial Conduct Authority (FCA) regulates firms advising or selling equity release schemes. These firms are expected to have relevant qualifications to operate as ERS providers or advisers and have to meet certain standards set up by the regulator. The Equity Release Council (ERC) is the industry body for the equity release sector. ERC is an expansion of the SHIP (formerly Safe Home Income Plans) and is a representative body of the providers, qualified financial advisors, lawyers, intermediaries and surveyors who work in this sector. The Council and its members are responsible to ensure that customers can safely use this form of borrowing to support their retirement income. They are also responsible for promoting public and political awareness on ERS as a solution to many of the financial challenges affecting people over the age of 55 years in UK (ERC, 2015). Many equity release providers withdrew from the market in 2009-2010 primarily because of difficulties accessing funds for lending.

The ERC encourages its members to provide products adhering to a number of standards including:

- For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a "cap" (upper limit) which is fixed for the life of the loan
- The product must have a "no negative equity guarantee" i.e. when the property is sold even if the amount left is not enough to repay the outstanding loan the customer's estate is not liable to pay any more.

- The product will be provided with an explanation of the plan with its benefits, limitations and obligations clearly set out.

Table 45: List of Lifetime Mortgage (LM) Providers in the UK

Lump-Sum LM	Drawdown LM	Interest Only LM	Enhanced LM
Aviva	Legal & General	Hodge Lifetime	Aviva
Legal & General	Aviva	Stonehaven	More2Life
Liverpool Victoria	Just Retirement	More2life	Partnership
Just Retirement	More2life		
Hodge Lifetime	Liverpool Victoria		
Stonehaven	Hodge Lifetime		
Pure Retirement	Pure Retirement		
More2life			

Source: <http://mail.compareequityrelease.com/enhanced-equity-release-for-ill-health.html>.

Table 46: List of Home Reversion (HR) Providers in the UK

Provider	Product
Bridgewater Equity Release	Bridgewater - Flexible Release Plan
Newlife	newlife mortgages - home reversion plan
Crown Equity Release	Crown Equity Release

Source: <http://mail.compareequityrelease.com/enhanced-equity-release-for-ill-health.html>.

Further insights and perspectives of UK stakeholders such as provider interviews and group exchanges have been incorporated in Section 7.5 Risks for providers and Chapter 9 Product development.

7.3 Product characteristics

Regarding the adequacy of offerings creating demand: The market may also be limited by the characteristics and features of existing product designs such as those that set the consumer or object eligibility threshold rather high such as by setting either minimum age requirements of 70 years of age or minimum property values of say EUR 250,000 (e.g. compared to an average housing asset valued at less than 200,000 for pensioners in Germany). Anecdotal evidence also suggests that even expensive properties are not accepted for ERS due to strict locational criteria by the providers.

7.3.1 ERS Loan Model - Product characteristics

The answers from the ERS provider questionnaire regarding ERS loan model product characteristics are as follows.

The most frequent product category is the rollup (see Table 47), and most providers use strict floors and ceilings to the loan amount granted (Table 48).

"Which product category does this product fall under?"

Table 47: ERS by product category (provider survey)

Category	Availability
Rollup	10
Home income plan	5
Interest only	4
Specify	1

Fixed repayment	0
Shared appreciation	0

"Are there strict floors and ceilings to the loan amount granted?"

Table 48: Floors and ceilings to the loans granted (1000 euros) (provider survey)

Property value	Minimum	Maximum
0-20%	3347.2	
21-30%	25	
31-40%		500
41-60%	50	72129.3
61%+	0.1	800
No limit	13.8	717.5
n.a.	26.0	1358.8

"Are early repayments allowed and at what cost (nominal fee and/or percent)?"

Early repayments are allowed in 14 cases and not allowed in one case. In three cases, no fee is charged. In other cases, the fees are set as follows: 0.5% of outstanding debt during first 5 years, 0.25% from then on; fixed early repayment charge 5% in year 1-5, 3% years 6-10 of initial capital amount (no interest); interest compensation, max 3 months; 1 year 0-5 the charge is 5%, early repayment charge for year 6-8 is 3%, for year 9 onwards — no early repayment charge.

"Form of interest rates?"

Table 49: Form of interest rates on Loan Model ERS (provider survey)

Form of interest rates	Cases
Fixed	
for entire lifetime	9
for set number of years only	2
Variable	
based on an index	2
based on benchmark rate	1

Most ERS loan model products are provided at fixed interest rates for the entire lifetime of the contract. (see Table 49).

"Time of servicing/payment?"

Table 50. Time of servicing/payment (provider survey)

Servicing type	Cases
Interest payments are made at termination and sale of property	12
Interest payments can be made throughout the period	8
Repayments of principal can be made throughout the period	6

In most cases, interest payments are made at termination and sale of property (see Table 50).

"Size of the interest rate as of January 2017 on new business (in % p.a.)?"

The APR varies between 0.6 and 6.3, with the mean of 4.6 and median of 5.1. The data on nominal interest contain an outlier, therefore, only minimum (0.6) and median (5.0) are reported. They coincide with those of APR.

"What are the other charges separately recovered from a client? (please give examples of upfront, brokerage, valuation, legal registration, or other fees for a typical loan/advance of €200,000)"

Other charges include: Application fee in four cases; arrangement fee in two cases; as well as one case for each of the following: commissioni di gestione (management fee), deferred annuity premium, set up fee, SHG guarantee, upfront fee, and valuation fee (see

Table 51).

Table 51: Types of charges (1) (provider survey)

Charge type	Cases	Average amount of loan, euro	Median percentage of loan
application fee	4	754.5	0.8
arrangement fee	2	710	
commissioni di gestione	1		0.2
deferred annuity premium	1		
set up fee	1	1500	
shg guarantee	1		
upfront fee	1	500	
valuation fee	2	200	

Further types of charges are summarised in Table 52.

Table 52. Types of charges (2) (provider survey)

Charge type	Cases	Average amount of loan, euro	Average percentage of loan
notary	1	500	0.3
annual fee	3	28.5	0.2
notification fee, yearly	1	20	
opening fee	1		0.2
set up / application fee	2	595	
valuation fee	2	228	0.1
advice / broker fee	2		1.1
arrangement fee for top up loan	1	250	
broker fee	2	585	0.3
possibly a third-party valuation fee paid by the customer	1		
valuation fee	2	500	0.2
brokerage	1		1.5
discharge fee	2	146	0.1
interest rate	1		
intermediary	1	1.2	0.7
legal fee	2	595	

"Do you offer a choice between higher product fees or higher interest rate?"

Only one firm indicates that it offers a choice between higher product fees or higher interest rate.

"Indicate the approximate size of your total ERS loan book for this product."

The size of the total ERS loan book varies between 50 and 37,560 (median of 3448) by number and between 250,000 and 2290 billion euros (median of 275 million euros).

7.3.2 ERS Sale Model - Product characteristics

The answers of providers to questions on ERS sale model product characteristics were as follows:

"Is a sale of the property part of the product contract?"

The sale of the property part of the product contract was distributed like this: total sale only in 5 cases, total or partial sale in 4 cases, while the remaining 12 do not sell the property.

"In the case of increase in the value of the property during the contract, does the customer benefit from this i.e. is the appreciation shared?"

Only two firms answered this question affirmatively, seven firms answered negatively, and three answered "Depends".

"Please indicate the typical size of fees faced on a property with sales values of a €200,000."

The typical size of fees faced on a property with sales values of a €200,000 was like follows: Brokerage fee €24,170, upfront fee €29,509, and valuation fee €1,606.

"In the case of an ERS Sale Model, is there a possibility to buy back the property?"

Only four firms offer a possibility to buy back the property: one firm allows it any time, another firm imposes an additional restriction that it should occur at a full open market value.

7.3.3 Common criteria for all ERS

7.3.3.1 Eligibility and Restrictions

Questions on eligibility and restrictions were answered by providers as follows:

"Do you require a minimum age for the person contracting this ERS?"

The vast majority, namely 21 of 23 firms require a minimum age for the person contracting this ERS.

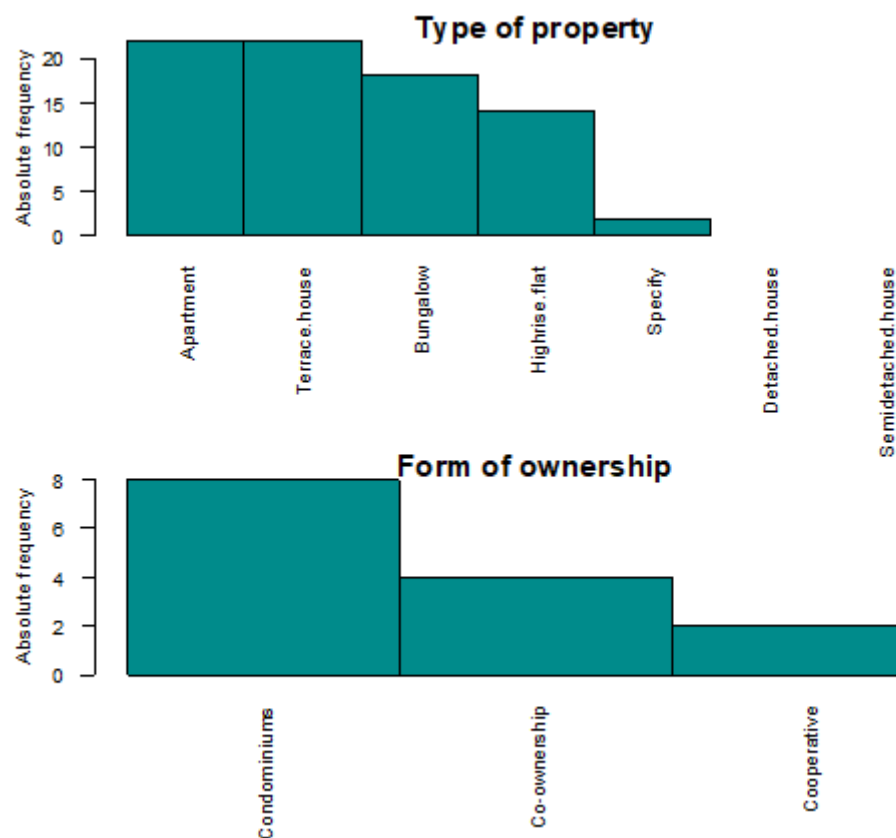
"Are there minimum or maximum residence values for ERS to be granted? (in EUR)"

The minimum residence values for ERS to be granted are used by 18 firms and vary between 20,000 and 200,000 euros, while the maximum values are used only by six firms and vary between 450 euros (this must be an error) and 6.9 million euros.

"What type of property is eligible? What forms of ownership are also eligible?"

The eligible types of property are distributed as follows:

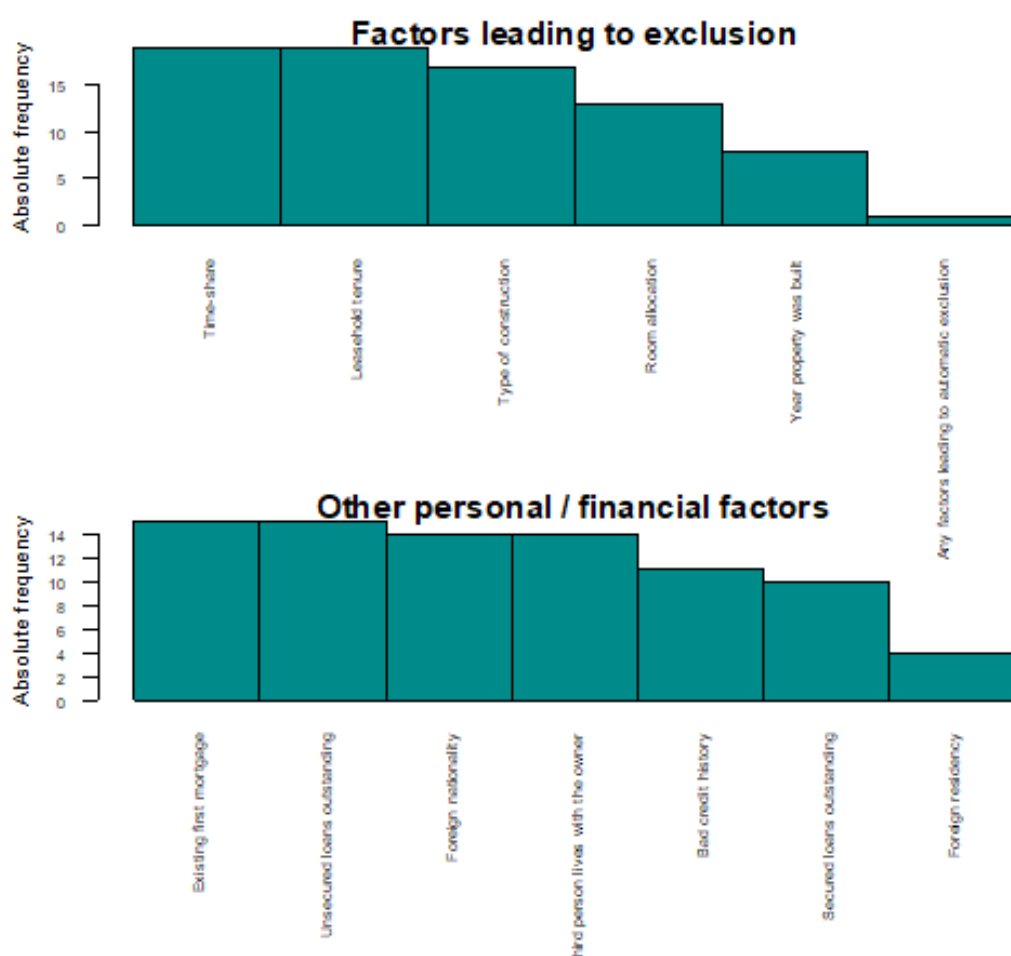
Figure 16: Eligibility of property types and forms of ownership (provider survey)



As shown in Figure 16 **Fehler! Verweisquelle konnte nicht gefunden werden.**, in the majority of the cases the eligible types of property are apartments, terraced houses, and bungalows, the former two being the most widespread in the urban areas. Detached and semi-detached houses are virtually not eligible, according to this survey. By far the most widespread form of ownership is condominiums, which are also characteristic to the cities.

"What factors could lead to exclusion? Other personal / financial factors that are still eligible i.e. (client can still qualify)"

Figure 17: Factors leading to exclusion (provider survey)



The most important factors leading to exclusion are time-share and leasehold tenure. In most cases, homeowners with existing first mortgage, unsecured loans outstanding, foreign nationality or living together with a third person are still eligible (see Figure 17).

"Are there tests and checks required?"

None of the firms in the sample requires a medical test. However, 14 firms require a credit check, although homeowners with bad credit history are still eligible (see Figure 17).

"Is your ERS marketed country-wide?"

Most firms (16) market ERS country-wide. In addition, seven firms market the ERS abroad. As restrictions to market the ERS country-wide or abroad the firms mentioned the following ones:

- areas with stable growth in housing values / except regions with bad prospects for the future;
- only specific country (England or Germany) due to the complexity of regulations in other countries or not in specific region (Northern Ireland);
- areas close to the territorial representatives or the firm's legal business area;
- biggest cities (40,000-50,000+ inhabitants), for they have more liquid real estate markets.

"Who else has to sign something before the conclusion of the contract?"

As 14 firms pointed out, all persons living in the property have to sign something before the conclusion of the contract. One firm requires that the contract be signed by those dependent on applicant(s).

"What uses of the property are allowed by the consumer?"

Figure 18. Allowed uses of the property (provider survey)

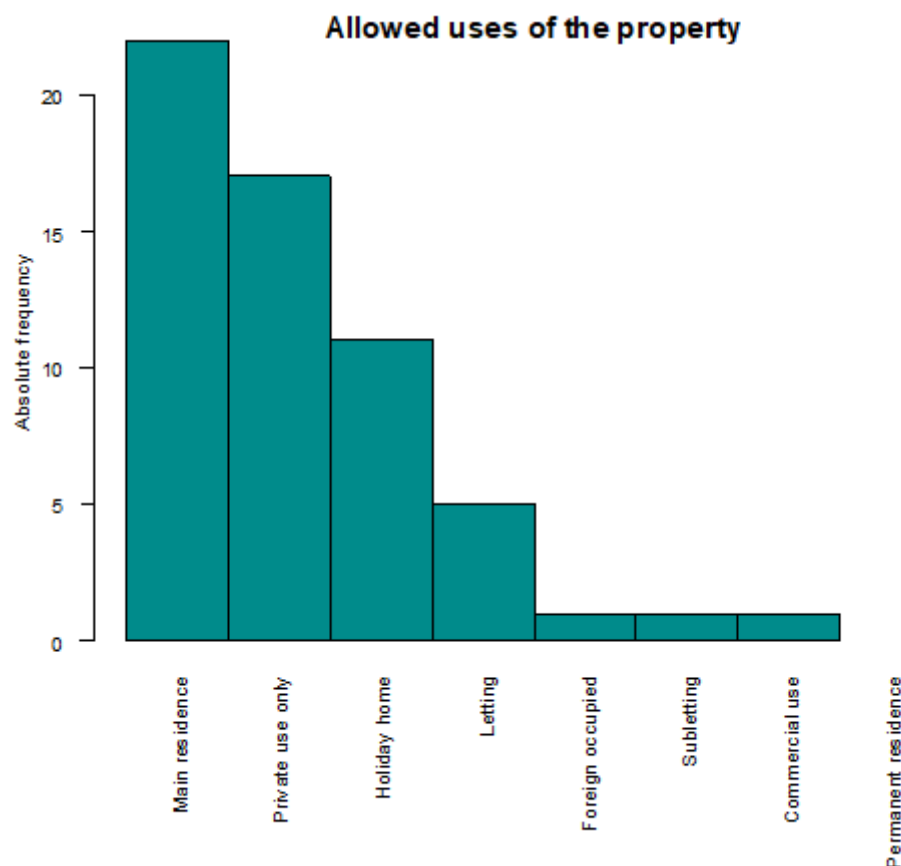


Figure 18 shows that all firms allow to use the property as the main residence as the product is designed to cater for. The next requirement of the providers is the private use only of the property.

"Are there any controls on the use of the funds?"

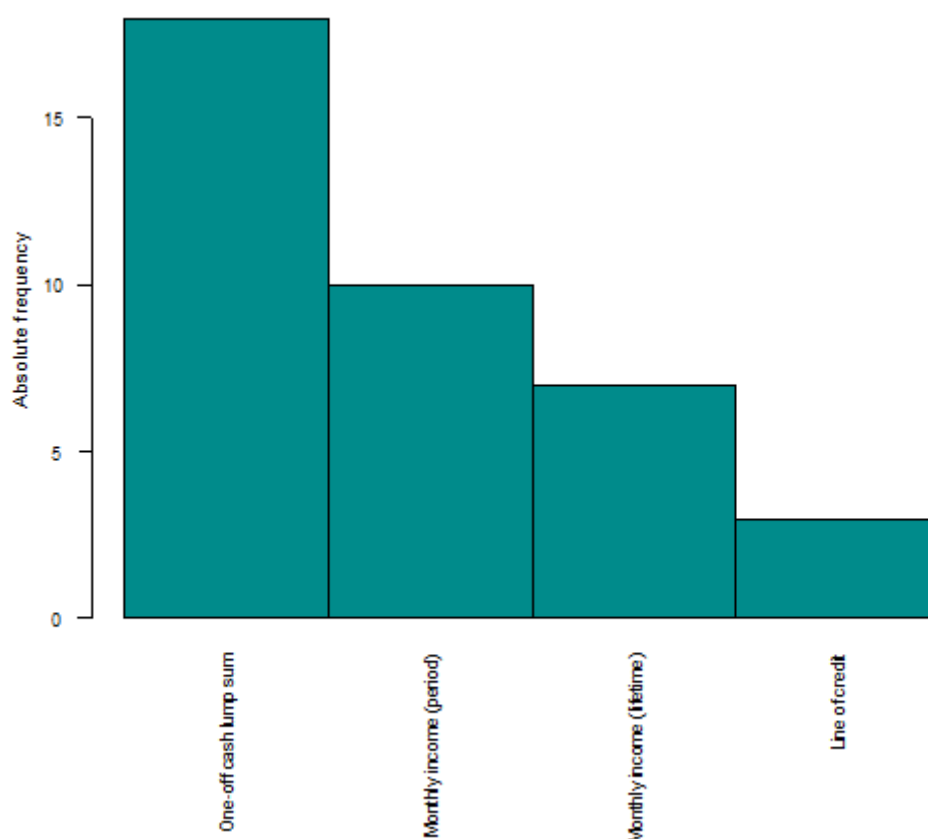
Roughly half of the firms (12 out of 23) employ other controls on the use of the funds.

7.3.3.2 Payment and Guarantees

Questions on payment and guarantees were answered by providers as follows:

"What forms of payment are available to the customer?"

Figure 19: Forms of payment available to the customer (provider survey)



By far the most important form of payment is one-off cash lump sum (see Figure 19).

"Can the owner reserve equity for other purposes?"

This question was answered positively by just six firms. They mentioned the following percent of sale value and conditions:

- part of equity can be reserved for the heirs paid after the client passes away;
- renovation, repairs, health care;
- up to maximum as per allowed LTV less initial loan taken;
- We accept 1st charge on the property and generally don't allow any 2nd charges to be placed on the title of the property.

"Can the form of the pay-out be changed on the customer's request during the lifetime of the contract?"

Only six firms allow to change the form of the pay-out on the customer's request during the lifetime of the contract.

"Is there a guarantee for lifetime occupancy?"

Almost all firms (22) provide a guarantee for lifetime occupancy. Factors that will cause the customer to lose this guarantee are as follows:

- if ownership is transferred to i.e. children;
- until death / entry to Long Term Care of surviving borrower;

- lifetime, if the customer does not break any of the loan conditions, i.e. seriously mismanages his property / lifetime occupancy ends with death or constant living in an old people's home;
- rights of the client to occupy the property is written in the contract and in The Land and Mortgage Register. The right can only be canceled or removed after the termination of the contract by joint agreement or after client passes away;
- two real estate recordings a) life interest b) land charge.

"Which of the following adaptations are contractually allowed under special circumstances?"

The majority of firms allow contractually adaptations under special circumstances, namely marriages (18 firms out of 23); divorces (16), and moves (16).

"Do you offer a payment guarantee period (in case of premature death)?"

Only six firms offer a payment guarantee period (in case of premature death).

"Is there a guarantee scheme in case your company should become insolvent?"

Eight firms have guarantee schemes in case they should become insolvent.

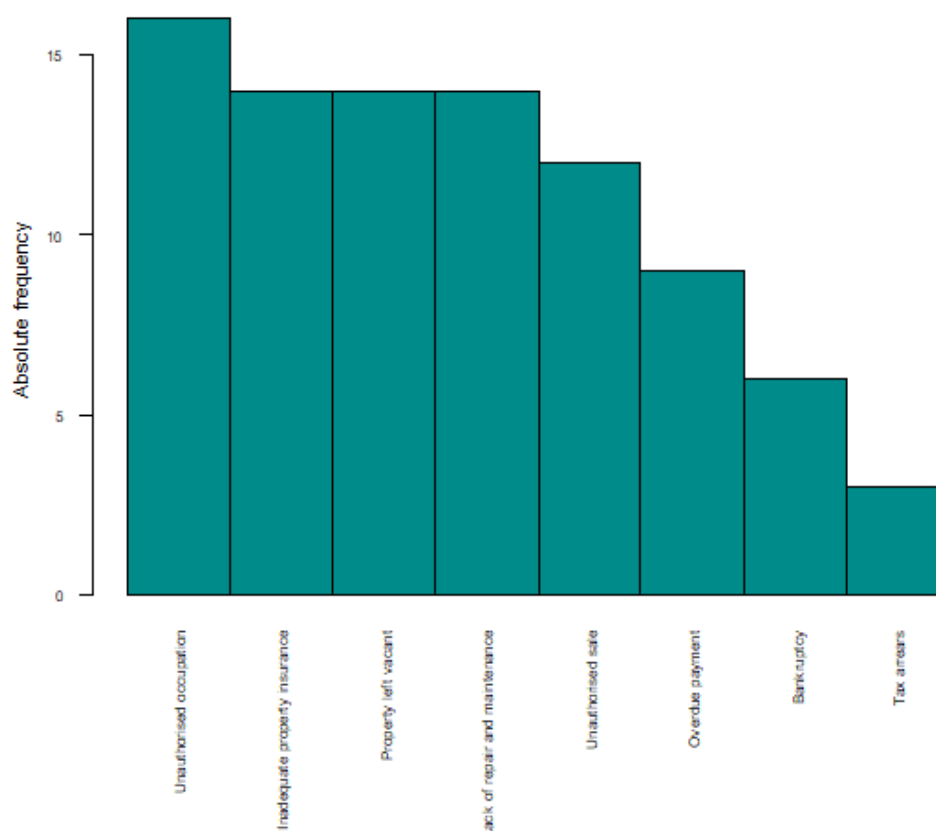
7.3.3.3 Termination and Default

Answers from the provider questionnaire regarding termination and default of ERS contracts are as follows:

"What factors can trigger cancellation of the contract when terms are not honoured?"

Figure 20 shows that mainly unauthorized occupation can trigger cancellation of the contract.

Figure 20: Factors that can trigger cancellation of the contract when terms are not honoured (provider survey)



"Are there restrictions on eviction, foreclosure, debt collection after cancellation?"

Five firms impose restrictions on eviction, foreclosure, and debt collection after cancellation.

"What proportion of your ERS has been terminated to date for the following reasons?"

Table 53. Proportion of ERS that has been terminated to date for the following reasons (provider survey)

Category	Death	Move to long-term care	Move to unspecified location	Sale of property	Trigger of a default clause
Less than 5%	3	8	7	6	7
6-10%	2	2			
11-20%	2				
21-30%	1	2		3	
31-40%	2			2	
61-70%	3				
71-80%	1				
Don't know or not specified	9	11	16	12	16

"Who is entitled to the surplus after repayment and what happens if there is a deficit?"

The following persons are entitled to the surplus: heirs/inheritors only (10 firms); not applicable as Sale Model ERS (6); other (2); provider only (1); and shared between provider and heirs (1).

The following would happen in case of deficit:

- surplus for seniors/inheritance, deficit for us;
- if there is a deficit the customer is protected through the No Negative Equity Guarantee (3 cases);
- there will not occur a surplus, because the payment stops after;
- no deficit charge to customer;
- remaining equity belongs to the customer or their estate; it can be ported to another property if meets the T&C's;
- reversion product;
- the borrower (or their estate) is required to repay the loan plus rolled up interest, therefore there is no surplus for JRML to disburse;
- there is never a deficit as the no negative equity guarantee kicks in.

7.3.4 Summary of common criteria and main differences

The main findings regarding characteristics of ERS products are:

- The products are only eligible for elderly homeowners with a minimum age, whose residence values exceed a minimum threshold. In most cases, homeowners with existing first mortgage, unsecured loans outstanding, foreign nationality or living together with a third person are still eligible. Most providers require a credit check.
- In the majority of the cases the eligible types of property are apartments, terraced houses, and bungalows, the former two being the most widespread in the urban areas. By far the most widespread form of ownership is condominiums, which are also characteristic to cities.
- ERS markets are usually restricted to one country, where most firms market ERS country-wide.
- Almost all firms provide a guarantee for lifetime occupancy.
- The most important form of payment is one-off cash lump sum. In most cases, the owner cannot reserve equity for other purposes, and the form of the payout cannot be changed on the customer's request during the lifetime of the contract.
- The majority of firms allow contractually adaptations under special circumstances, such as marriages, divorces, and moves. Unauthorized occupation is likely to trigger cancellation of the contract by the provider.
- Risks from consumers may arise from premature death and insolvency of the ERS provider. Only few firms offer a payment guarantee period in case of premature death, and only a few have guarantee schemes in case they should become insolvent.

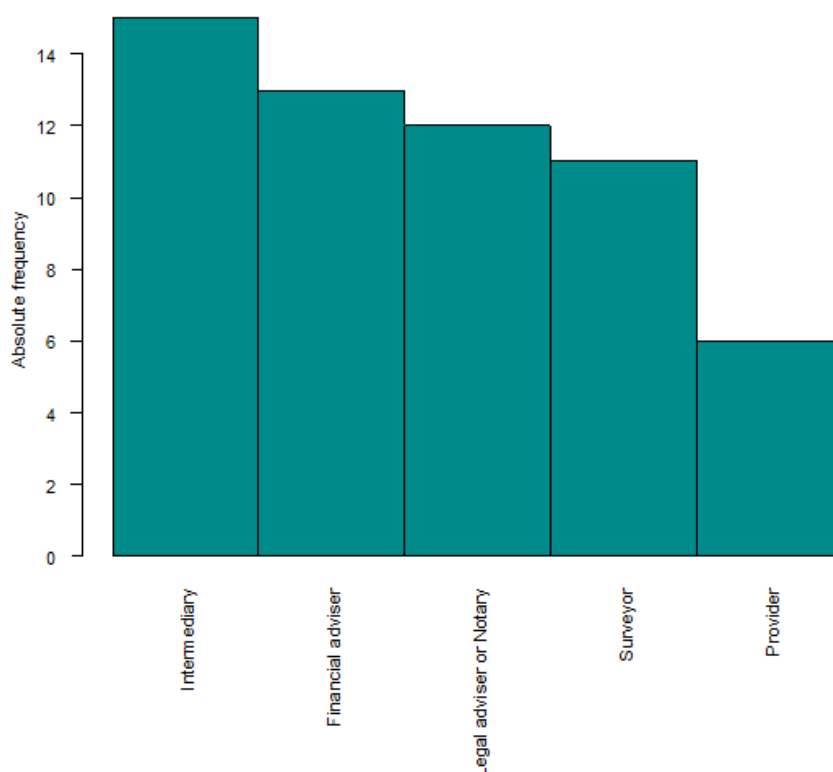
The main difference between loan model and sale model ERS is pricing: Most ERS loan model products are provided at fixed interest rates for the entire lifetime, with interest payments being made at termination and sale of the property. ERS sale model consumers do not have to pay interest rates, but pay a price given by the difference between the market value of their home and the lump sum they receive. In both cases the consumer has to pay various fees, such as application, brokerage, upfront and valuation fees, which makes the calculation of the total costs and price comparisons between products difficult. In contrast to the loan model, in the ERS sale model, consumers do not profit from an increase in the value of the property during the contract, and in most cases, there is no possibility to buy back the property.

7.4 Distribution channels

Questions on distribution of ERS products were answered by providers as follows:

"Which cooperation partners are involved in your product sales?"

Figure 21: Cooperation partners (provider survey)



The most frequent cooperation partners are intermediaries. However, differences between the use of cooperation partners are not large (see Figure 21).

"Describe the way the product is marketed by estimating the share of the following channels"

Table 54: Product marketing channels (provider survey)

Category	Affiliate	Direct marketing (internet)	Intermediaries
Less than 5%	5	3	2
5-10%	2		1
11-25%	1	3	3
26-50%		1	1
51-75%	1	3	
75%+	2	2	9
Not specified	12	11	7

The most important channel for marketing the products are the intermediaries (see Table 54).

7.5 Risks for providers

Each type of equity release schemes is different in nature and expose product providers to varying degrees of risks. This section describes risks facing providers of lifetime mortgages and home reversion schemes in detail.

7.5.1 Risks facing lifetime mortgage providers

The nature of a lifetime mortgage is such that it does not require the customer to make regular repayments, which implies that the outstanding loan amount grows due to principal advances, interest accruals and other types of charges over the lifespan of the customer. The provider recovers the loan amount inclusive of accrued interest by selling the house once the customer dies or moves into a long-term care home. According to the current industry practices in the UK, the product features a 'no negative equity guarantee' (NNEG), which insures customers against situations where the sale proceeds do not meet the outstanding accrued loan. Therefore, the major risk facing a lifetime mortgage provider is the activation of the NNEG, which is a factor of longevity risk, house price risk and interest rate risk (Alai et al., 2014; Andrews & Oberoi, 2015).

Longevity Risk is the risk that advances in medical sciences and lifestyle changes lead to people living longer (Hull, 2012, p.51). That is, if a lifetime mortgage borrower lives longer than expected, the outstanding loan amount will continue to accrue interest for a longer period, which may drive the loan amount to exceed the value of the house at sale (Alai et al., 2014). However, where a borrower dies earlier than expected, the provider still faces a risk of not being able to make the expected returns because the asset grows in value only for a shorter period.

House Price Risk is the risk that the outstanding loan grows more quickly than house prices. Recent literature on lifetime mortgage pricing shows that the idiosyncratic part of the house price risk i.e. the basis risk is very large for lifetime mortgage lenders or their insurers (Shao et al., 2015). Basis risk is the risk that the returns from price changes in the individual house (mortgaged property) are lower than the returns from a house price inflation index (HPI) (Li et al., 2010). The presence of basis risk along with longevity risk makes it necessary for providers to exercise prudence in the size of the loan relative to the value of the house (Andrews & Oberoi, 2015).

Interest Rate Risk arises if lifetime mortgages feature variable/adjustable interest rates. A rise in interest rates can result in a higher rate of interest accruals than expected hence creating negative equity for providers to bear (Alai et al., 2014). However, in the UK most reverse mortgages comprise of fixed or capped variable interest rates, which provides more certain cash flows to providers. It also reduces the risk of negative equity which would be more likely in an environment of rising uncapped variable interest rates.

Other risks associated with lifetime mortgage

In addition to the three risks explained above, lifetime mortgages expose their providers to an uncertain repayment profile and the possibility of voluntary early repayment. For example, if there are fewer redemptions than expected either due to lower deaths or due to increased time between death and redemption (because of a slow property market), then that creates uncertain and mismatched short-term cash flows (IFoA, 2014). Early loan repayments or refinancing also creates uncertainties in cash flows for providers.

Further, there are many operational risks involved in a lifetime mortgage offering. Operational risks such as those associated with customer administration for example, fraud, legal issues and regulation. The probability of these risks is high especially when there is a third party (financial adviser or broker) involved.

Moreover, operational risks in the form of moral hazard and adverse selection are high for lifetime mortgage providers. There is a chance of moral hazard because the customer is responsible for maintaining the property until maturity of the contract (Shiller & Weiss, 2000). In most cases, there is little incentive for customers/homeowners/borrowers to keep up maintenance the property, further increasing the chance the house value will not

rise and thus the activation of the NNEG. This also exposes providers to dilapidation risks, which is the risk of violation of contract covenants in relation to maintenance of the property, on behalf of the customer. The provider also runs the risk of adverse selection by making loan advances to households residing in the same postcode or areas that are prone to natural calamities.

Lastly, there is a modelling risk involved in pricing lifetime mortgages. This may be due to inappropriate calibration of the property growth rate and property volatility given the long-term nature of these contracts. Another reason that causes model risk is lack of availability of suitable data. The market for lifetime mortgages is relatively less mature and therefore there is limited data available to understand consumer behaviour in old age. This creates further difficulties in determining reliable estimates for the use of drawdown, early pre-payment, optional interest payment, movement into long-term care and dilapidation rates through the entire future lifetime of the loan (IFoA, 2016). These factors may change significantly depending upon individual circumstances, economic factors and social changes (IFoA, 2016).

7.5.2 Risks facing home reversion providers

Under a home reversion contract, the homeowner sells the entire house or a portion of it to a reversion provider at a discounted rate. In exchange, the reversion company provides a tax-free lump sum or regular repayments and a lifelong lease guaranteeing the rent-free property rights to the customer. The rent-free aspect of this type of equity release is typical to the UK market. In Australia, reversion providers charge customers a nominal rent in exchange for the lifelong lease (Alai et al., 2014). At the end of the home reversion contract (death or permanent move out of the customer), the house is sold and the sale proceeds are shared between the provider and the customer's beneficiaries according to the remaining proportion of ownership in the property (ERC, 2017).

The major risk to the provider in offering a home reversion scheme is the risk of moral hazard in association to the maintenance of the house as explained above. In addition to that, since the lender is entitled to sell the house at the end of the contract, they face a risk of house price depreciation. Further, in a home reversion contract, the provider purchases the property at a discounted rate. The level of discount reflects the value of the lease for life, i.e. the rental income from the property. The provider's payoff reduces if the realised rental yields are greater in comparison to those assumed at the start of the contract (Alai et al., 2014). Hence, there is a risk of mismatch between the realised rental yields and those assumed at contract inception in home reversion schemes.

7.5.3 Other risks and provider opinion on risks

The risks defined previously were specific to individual product categories of equity release schemes. The industry is already aware of those risks and it manages them by offering prudent loan-to-value (LTV) ratios (discount values in case of home reversion schemes) and charging higher interest rates than typical mortgage rates. Apart from those risks, the market as a whole faces many other risks. For example, reputational risk, the risk of poor uptake of products, risks imposed by regulations and capital restrictions. The following paragraphs describe such risks by including perspectives of professionals from the UK equity release market and financial regulatory bodies.

UK Stakeholder Data

In the UK, we conducted fourteen semi-structured interviews with officials from equity release providers, product specialist advisers and intermediaries, the trade body and financial regulators. The interview schedule elicited views on barriers to the growth of the market, risks for providers, the need for regulatory changes, the role of the government in this market and the need for a change in perceptions of consumers. It also elicited the views on the overall role of housing wealth and equity release in particular as a way of addressing the long-term care and pension needs in the UK.

Table 55 lists the service provider types represented by 16 participants. Although we conducted 14 interviews, there were more than one representatives from two organisations. We have anonymised each stakeholder's name to protect confidentiality.

Table 55: Composition of UK stakeholder sample including 16 participants, by type

Service Provider Type	N
Private sector - Financial provider (FP)	10
Private sector - Specialist financial advice provider (FA)	2
Private sector - Financial intermediary (FI)	1
Not for profit - Financial regulators and industry representatives (FRIR)	3

Risks

The market for equity release products faces other types of risks in addition to the ones described in sections 7.5.1 and 7.5.2. They are:

- *Reputational risk* – the provider is particularly vulnerable to reputational damage when dealing with older, more vulnerable people. The sale of the property and the termination of the contract take place only after the customer passes away leaving the provider to deal with the customer's dependants. Hence, the provider comes at the risk of developing a poor reputation if the dependants awaiting the inheritance were unaware of the existence of the equity release contract. In addition to that, the market for equity release products has already earned a negative reputation through the historical misselling of home income plans and shared appreciation mortgages. A negative perception of these products persists despite self-regulation as suggested by the following excerpt:

"A lot of people when they think about equity release think about the old home reversion plans and their perception is that equity release is giving up the ownership of your home, which obviously, probably 99% of ERS now sold being lifetime mortgages that is no longer the case." (FA1).

The high risk of reputational damage is a major barrier to entry of bigger players in the finance industry thereby restricting the growth of the market.

"If you are a leading bank, which is precious about its reputation, do you then want to take on board the challenge of servicing something like this?" (FRIR1).

- *The risk of low take-up rates* – the customer base for equity release is small as equity release products only cater to the needs of a section of the society that have substantial amounts of housing equity and the elderly are especially reluctant to acquire debts. Taking out a lifetime mortgage may not appeal to consumers especially if there are other ways of meeting their financial needs available to them.

"There is a bit of negativity around equity release schemes and I think that comes from the attitudes to debts. People have paid off their mortgages and then the idea of getting into more debt does not appeal to many people" (FRIR3).

Many of the elderly also want to pass on their property to their dependents as an inheritance. Insights from financial regulators and a few equity release providers suggest that bequest motives are strong, especially in case of relatively older population (people in their 80's) and therefore acts as a hurdle to the uptake of lifetime mortgages and the overall development of the market.

"There is a set of consumers who are still expecting to pass on the property unencumbered. So the idea of equity release is one which is not landing on particularly fertile grounds with all the consumers at the moment." (FRIR2).

- *Risks imposed by stricter regulations and capital restrictions* – following the financial crisis of 2007-08, regulators introduced Solvency II to replace the long-standing insurance framework of Solvency I. Solvency II is stricter and it requires companies to calculate capital for investment risks and operational risks in addition to capital for underwriting risks (Hull, 2012, p.279). Under the Solvency II regime, life insurance companies dealing in annuity products need to invest in long-dated fixed interest assets with liquidity being of tertiary nature. The asset should match the annuity liability perfectly such that it replicates the annuity cash flows and provide sufficient risk adjusted yield for the purposes of competitive pricing (IFoA, 2014). Traditionally, many annuity providers have managed their liabilities through investments in lifetime mortgage products that act as a natural hedge to the long-term liability under life annuities. This is where the most of the funding for lifetime mortgages comes from in this market. However, since the introduction of the Solvency II regime, the availability of funding for lifetime mortgage products has declined. This is primarily because the regime considers investments in such assets on behalf of the annuity provider 'too-risky' and requires them to restructure the asset before including it into their matching adjustment portfolio (IFoA, 2016). Thus, creating a scarcity of capital available to lifetime mortgages providers and consequently restricting the maximum LTV offered as a loan amount and the extent of product innovation. The following excerpts reaffirm this:

"...because if the funding were different you could have got lower interest rates, higher LTVs and more flexibility" (FA1)

"...life companies are not showing tolerance for wanting to support higher LTV loans. We are near as much as a bigger number as we are in the lower LTV part of the market. Many providers including us provide low interest rate and low LTV but there is huge consumer demand for actually higher LTV and potentially higher interest rate." (FP6)

Therefore, the way in which regulations around funding work in the market is indeed a problem from the supply side restricting the maximum loan-to-value ratio, product innovation and preventing providers from offering equity release on flexible terms. All these factors again pose a threat to the uptake of lifetime mortgages.

- *Risks imposed by current marketing and distribution channels* - from a provider's perspective, the way in which equity release schemes are promoted in the current market is a problem because of the following reasons. Customers currently do not deal directly through product providers but through a specialist equity release financial adviser who explains product features, ensures that there is a real need for equity release in the particular case and liaises with a lender to provide the contract. In this entire process, the first point of contact for a consumer seeking to purchase an equity release plan is the financial adviser. Therefore, it has been left to such financial advisers to advertise and provide accurate information on the products.

"A lot of the distribution models we have running in the market at the moment keep a lot of information behind the advice payroll ..." (FP4)

Apart from a few leading financial advisers who own approximately 50% of the market share in terms of 'equity release advice', the size of other advising firms is small. In view of some providers, these small advising firms do not create the desired impression about equity release products in a consumer's mind and often prove inefficient carriers of information causing information asymmetry:

"... In the present time, equity release schemes are sold through financial intermediaries and advisers, so it has been left to the advisers and the brokers in the market to advertise this product. Well with all due respect, when you have small firms marketing, they are not good marketers! So getting some big brands out there in advertising, I think is crucial." (FP7)

In addition to the qualitative responses received from the leading UK ERS providers above, survey answers from ERS providers from across the EU also show the diversity and relative importance of risk factors that may be constraining the supply side of the market. The development of ERS markets may be hampered by these risks as well as from asymmetric information both for providers and consumers. Consumers are likely to be less informed about the products offerings and their quality than suppliers. On the other hand, suppliers may be less informed about the quality and maintenance of the homes than the owners who live in them, and they face several risks, which act as market barriers for the development of ERS.⁵⁴

The answers from the ERS provider Questionnaire regarding risks and pricing were as follows:

"How important are the following risks for a provider of ERS?"

Table 56: Importance of the risks for a provider of ERS on a scale of 1 (very low) to 5 (very high) (provider survey)

Category	Mean point
Maturity mismatch	2.6
Moral hazard affecting quality of property	3.2
Longevity	4.2
Reputational	4.0
Interest rate	3.8
House valuation	4.5
Ability to sell the property	3.7

Table 56 reports the importance of various risks, according to a 5-point scale. The most important risks are house valuation and longevity.

"Do you offer a No Negative Equity Guarantee (NNEG)?"

Roughly half of the firms (12 cases) offer a No Negative Equity Guarantee (NNEG) always, while two firms offer no NNEG.

"How have you allowed for NNEG (i.e. built it into your pricing)?"

⁵⁴ See Reifner et al. 2009a for earlier wider stakeholder opinions on provider risks. For example, failure risk due to uncertainty about longevity, development of interest rates, house prices and value of the property as well as reputational risk.

10 firms build it into the amount released, whereas 7 firms build it into their interest rates. This is done in the following way:

- 90% LTV in a reversed mortgage;
- funding costs;
- home reversion plans have built in NNEG;
- lower LVRs than in other equity release markets (e.g., UK) are operated.

"Is there state or mutual help schemes for such risks?"

None of the firms has any help schemes for risks.

"What do you see as the biggest challenge or constraint for providers contemplating to enter the market?"

Table 57: Biggest challenges or constraints for providers contemplating to enter the market (provider survey)

Category	Mean point
Access to capital	4.2
Degree of support from public policy	3.5
Timing of cash inflows and outflows	3.4
Marketing and distribution infrastructure	3.2
Regulatory capital requirements	3.1
Property market expertise and/or diversified portfolio	2.9
Difficulty to hedge returns	2.7
Insufficient return obtainable	2.6
Difficulty to recoup large transaction costs	2.4

As the biggest challenge, the firms mostly mention the access to capital (see *Table 57*).

"To what extent do you include the following factors in the scheme design approach adopted by your firm?"

Table 58: Factors included in the scheme design approach adopted by the firm (provider survey)

Category	Mean
Mortality	3.9
Morbidity events requiring evacuation	3.0
Lapses in levels of property maintenance	2.9

Interest rate volatility	2.7
Regulatory requirements regarding valuation for solvency purposes	2.7
No negative equity guarantee	2.7
Option to repay early	2.7
Penalty clauses for repurchase or early repayment	1.7
Family events	1.7
Option to repurchase	1.1
Work events	0.8

To the largest extent the firms include mortality into their scheme design approach (see Table 58).

"How would you rate these barriers to development of the ERS market?"

Table 59: Barriers to development of the ERS market, strength on a scale of 1 (very weak) to 5 (very strong) (Provider survey)

Category	0	1	2	3	4	5	Select
Scarcity on supply side		4	5	4	2	6	2
Cultural resistance		2	1	7	9	2	2
Low interest rates for regular mortgages	1	9	6	2	1	2	2
Lack of knowledge among consumers				5	12	4	2
Solvency II / Basel III		6	1	2	3	9	2
Lag of established big name providers		4	3	6	5	3	2
Access to funding		2	1	2	2	13	3
Lack of competition		7	7	4	3		2
Nature of the housing market		6	9	4		1	3
Lack of regulation		15	1	2		3	2
Level of indebtedness		7	6	5	2		3
Reputational risk		1	3	6	7	1	5

Measured by the answers “strong” (4) and “very strong” (5), the respondents find that lack of knowledge among consumers is the major barrier to development of the ERS market, followed by access to funding, Solvency II / Basel III, reputational risk and scarcity on supply side (see Table 59).

Risks and uncertainties are a large reason behind explanations for the lack of mainstream providers in Member states such as Germany. The German market for ERS currently remains small and thus challenging for commercial viability for the potential mainstream providers. Leading commercial banks have however considered a market launch of ERS in Germany in the past. For example, the Dresdner Bauspar AG was the first provider to attempt to launch an ERS on the German market in 2000 however at the time contractual and supervisory legal issues were uncertain and the re-insurance solution envisaged resulted in too low an amount withdrawn and return for the firm. Reputational risk to the image of the bank was also a factor as consumer organisations and media reports portrayed the consumer value of these products negatively at the time. Other established institutions having considered ERS include Hypovereinsbank and Hannoversche Leben as well as Deutsche Kreditbank (DKB) (Sternberger-Frey, 2011). One reason why credit institutions or insurance companies are best suited to be product manufacturers is because of the large cash outflows that are required during the product’s long time horizon and associated heavy need for capital (which is difficult to collect from an otherwise typically small number of investors).

7.6 Exploring the role for State involvement

7.6.1 Limiting the risks for providers

This section explains the management of risks associated with equity release schemes. The views are primarily drawn from a UK perspective and the section focuses mainly on the loan model of equity release because most UK stakeholders offered their opinions only on a lifetime mortgage, which is the dominant product in the UK market.

Each lender has their own lending criteria in place to alleviate the effect of operational and model risks identified in Section 7.5.1. For example, the value of the property must be above £70000 to be eligible for a lifetime mortgage. Further, most providers avoid offering lifetime mortgages to consumers with properties in areas where house prices are either volatile or they have stagnated over the years. For example, most providers do not lend to homeowners from Northern Ireland or Scotland, where house prices have not increased in value as they have in parts of England. In addition, there is regular and strict supervision of the property once the contract begins to ensure that customers abide by the terms of the contract especially concerning house maintenance.

Our research suggests that the most significant risk to lifetime mortgage providers is the NNEG. Specifically, the basis risk that firstly arises when the customer/homeowner outlives their corresponding annuitant whose money is being used to fund the lifetime mortgage contract. Secondly, basis risk that happens when appreciations in the individual house value is less than that of the house price inflation index. The research also suggests that providers/insurers manage these risks by being prudent in terms of the maximum LTV ratio offered to the customer and simultaneously charging a high rate of interest. There is a downside to such risk management techniques from a consumer’s point of view. With the ongoing social and demographic changes, consumers need to be able to withdraw sufficient equity to support incomes in retirement; i.e. products with higher LTV ratio. This seems unachievable under current risk management practices and capital regulations.

A potential solution to reduce the effect of the NNEG on product pricing, and therefore increase the LTV ratio and reduce interest rates is through government subsidies. In the US, reverse mortgages (lifetime mortgage in the UK) are government administered contracts in which a government agency insures providers against the NNEG. Some respondents spoke in favour of this system and mentioned that a government subsidy like that would enhance LTV ratios and give them the required flexibility and scope for product innovation.

"The most important thing that government could do is guarantee it like the way they do it in the US. That would change the market. ... The role of the government is to underpin the NNEG and by default that will toss the product immediately and therefore, you will be able to design it in such a way that consumers can access more of the loan to value" (FA2)

The UK government is unlikely to want to increase the fiscal burden on taxpayers in this way. It could however be argued that taxpayers are already supporting similar schemes such as the 'Help to buy' schemes that support younger people in purchasing a property. Moreover, increasing the amount of equity that could be withdrawn could perhaps reduce the burden on the state pension system. However, at a time when the government is not willing to support pension schemes and they are looking for alternate ways of funding long-term care needs, direct government intervention in the market does not seem feasible. The following quote reaffirms this argument:

"I can't say that we have seen any appetite for the government to get involved in such a way. It is not supporting pensions so I think they should not provide NNEG insurance." (FRIR2).

There is therefore a role of the government in this market but perhaps not in the form of subsidising the NNEG. Instead, what most experts highlighted was the role of the government in terms of uplifting the overall image of the market and in promoting equity release products as a mainstream retirement planning product. That would remove negativities in terms of using such products for retirement consumption on the consumer's front as well as motivate financial advisers and other mortgage/life companies concerned about reputational risk to become involved in the market. More financial advisers talking about equity release products would increase the demand. Participation of large-scale providers and funders would reduce funding problems, increase competition and consequently improve the cost and viability of products thus improving the size of the market and the quality of products.

"The government has a role in removing barriers to the growth of the sector particularly if they prevent new funding streams. There is also a role in communications that is the government should be able to foster a more positive attitude to equity release and it should be considered as one of the options." (FRIR3)

In summary, equity release products are complex and they expose their providers to a large range of risks. The current risk management mechanism adopted by providers/insurers in combination with stricter Solvency II regulations imply that equity release schemes will never be utilised fully by interested customers due to the low LTV. Moreover, a low LTV combined with a high interest rate makes the product appear expensive to the customer. Therefore, overcoming these risks and the barriers they create in relation to the development of the market would require both greater involvement of the government and from the market participants leading to more competition, more products suitable for consumer needs while overcoming the barriers to the growth of the market.

7.6.2 Measures to facilitate development of ERS markets - Provider views

In the research findings from the ERS provider survey, questions on ways to promote ERS markets were answered by providers as follows:

"Which elements of state intervention would be most significant?"

Table 60: Importance of state intervention on a scale of 1 (very low) to 5 (very high) (provider survey)

Category	0	1	2	3	4	5	No answer
Support for no negative equity guarantee	1	6		2	6	6	2
Tax relief for clients for payments to providers	1	7	3	3		7	2
Tax relief for providers for receipts from clients	1	5	4	4	1	6	2
Provision of suitable accommodation in urban areas which would enable a form of collective investment involving households and providers	6	8	5	2			2
Provision of mechanisms which facilitated inter-generational transfers while safeguarding the capital of providers	4	9	2	4	2		2
Standardisation of a product framework on a pan European basis	1	10	3	3	1	3	2
Standardisation of a switching and securitisation process for households and for providers	5	3	3	4		4	4

According to the participants of the survey, the three equally important elements of state intervention are tax relief for clients, support for no negative equity, and tax relief for providers (see Table 60).

"What do you think would help promote the up-take of ERS by consumers?"

- governmental support for commercial initiatives;
- (product) awareness, choice (2 firms);
- better pay-out rates;
- consumer advocates should recommend ERS products next to pure sale models. They have to accept that people don't want to leave their homes in retirement, even if they may be a few sqm too big;
- consumer education. Government endorsement;
- elimination of unreliable providers;
- financial education, promotion of the product, more offer availability (2 firms);

- formation of trust through a reasonable legal basis;
- funding — more competition — improved awareness of the safeguards in place. More government help in raising awareness. Currently all marketing is provided by the key distributors in the market / funding leading to lower interest rates (3 firms);
- high street banks offering these products;
- improved consumer knowledge and understanding of products / more household names entering the market;
- state guarantees, regulations or supervision of market;
- information on the product and its alternatives;
- more product choice from established market providers.

7.6.3 Market outlook and policy levers - Perspectives from six member states

Based on the answers received from stakeholder interviews and engagement, the following national observations can be made:

Germany

Based on the 11 stakeholders interviewed (see Annex to report for further description), we find the following for Germany. The idea of developing the market for ERS by means of a subsidy à la Riester is almost unanimously rejected by the interviewed persons. For many, this would only lead to a further misallocation of subsidies, as can already be seen in the current Riester products. According to the respondents' assessment, the lion's share of this money would go to the brokerage commission for these products. In addition, such support, at least at the moment, would more likely to be used by better-earning and wealthy households.

Two of the interviewees saw an opportunity to create a nationwide offering and generate maximum confidence for such a product if the state offered such a real estate annuity product. Such a product would be expected to result in fairer pricing and significantly lower regional exclusions. In addition, the longevity risk would be covered and even possible crisis scenarios (large losses in value of the real estate) would not cause the provider any difficulties.

Most of the respondents would welcome it if the state, as in the USA, were to bear the longevity risk such that this no longer remains solely with the providers. Many could also imagine that the state, as in the context of the financial crisis, intervenes in a German real estate crisis - creating a security system.

Also, a regulation to ensure good quality of advice in the ERS sector would be welcomed. The introduction of a permit requirement (restriction of access) was considered in order to be able to act as a consultant or mediator in this area. The idea was to prescribe a kind of additional qualification - based on the classical intermediation and counselling qualifications.

Hungary

According to our interview with the Hungarian financial authority the market today is sufficiently regulated, solvency ii measures have been implemented successfully. The recent regulation integrated the possibility to offer equity release schemes as a kind of insurance service – although there is still no experience due to the fact that there is currently no market.

There are several characteristic risks for such kinds of services as e.g. adverse selection, longevity risk, long payback time and high capital requirement, which has been a problem for the subsidiaries offering ERS on the Hungarian market before the global financial crisis. An inherent risk is the lack of experience in the real estate market. Besides this, providers which would offer new, non-traditional products would be ranked in a higher risk category. Risks could be limited by public guarantees or by creating new, (possibly transnational)

financial intermediaries, which connect different providers with different profile and expertise and by the possibility of securitization.

UK

Netherlands

As a result of the long life risk (often covering two partners) and the house price risk, equity release products are considered a risky and complex business for providers. Insurance companies and/or guarantee funds may mitigate these risks. Most of the Dutch stakeholders believe that the equity release market in the Netherlands will only truly develop if a third party (pension fund, guarantee fund) gets involved. The organization that is providing the Dutch mortgage guarantee (WEW: an organization that is backed by the Dutch government) is currently investigating the possibilities for introducing such a guarantee. The general opinion among the stakeholders is that the Dutch government should develop a clearer vision on, and regulation of, the ERS market.

Italy

From the questionnaires collected from the providers and from the financial and insurance representatives who participated to the stakeholder panel discussion it is true that the market for equity release product is a potential one. Yet, those instruments appear still very risky and complex. And the reasons of this evaluation is related to the difficulties of capturing and measuring the longevity risk, long payback time, lag in tax-reforms related to the inheritance and in legislative reform on urban management, difficulty to hedge returns with excessive risk and last but not least a high variability in the housing market price. Some of those risks and drawbacks could be mitigated by a State intervention aiming to support for the no negative equity guarantee, promote a tax relief for both clients and providers. However, the providers point out that along with structural drawbacks the Italian market development could be hindered by cultural and social hindrance like cultural resistance, lack of financial knowledge and access to funding. On this perspective, the suggestions endeavour to propose interventions for the increasing consumers' financial awareness and autonomy.

7.6.4 Lessons from state involvement in countries outside the EU

This project's object is to design a hybrid system of old age pensions offering a permanent choice between the conversion of homes into liquid pensions and the conversion of savings into homes, to obtain income. In our research for a fairly standardized product, adaptable to different legal orders and feasible at a reasonable cost, we take into account non-EU examples that may be of interest to influence future action in the EU. Two useful countries in terms of learning about state intervention in the provision of ERS are the US and Australia.

Lessons from the United States

In the United States, there is a full variety of ERS and similar schemes to obtain liquidity from real estate. The US has one of the most advanced reverse mortgage (loan model of equity release schemes) markets in the world, offering both privately run and government administered reverse mortgages. One of the ERS (reverse mortgage) is backed by the U.S. Federal Government: the Home Equity Conversion Mortgage or HECM. It is administered and insured by the Federal Housing Administration (FHA), a branch of the US Department of Housing and Urban Development (HUD), and is included in the Housing and Community Development Act of 1987. The HECM is the most popular form of reverse mortgage in the US contributing to 95% of the market (Moulton et al., 2015).

This scheme allows for the release of capital by home owners of over 62 years of age, from his or her dwelling (primary home). These homeowners must be living in the house and must have repaid all previous mortgages on the property in order to qualify for the loan. The HECM regulation includes protection for widowed spouses of the mortgagee and for other individuals that may cohabit in the property.

To acquire these products consumers must take advice from an HUD-approved adviser, and are entitled to receive information about the financial costs, payment options and tax implications of reverse mortgages. Also since 2015 applicants are subject to a financial assessment prior to entering into the reverse mortgage contract. The FHA verifies financial details such as income, asset, credit history, payment of real estate taxes and insurance premiums related to the property (HUD, 2017). The FHA introduced this clause in April 2013 to limit default risk⁵⁵ (Moulton et al., 2015) whereas, before this, HECM loans were advanced based on the borrower's house value and age profile.

In an HECM, the FHA raises funds through private mortgage lenders and passes them on to the borrower (Davidoff, 2015). Lenders under this scheme must be approved by the FHA. The loan amount depends on the age of the borrower or the youngest borrower (in case of a couple) and current interest rates (HUD, 2017). The maximum claim amount (MCA) is the appraised house value subject to a cap which varies regionally (Davidoff, 2015). The cost structure of HECM includes origination fees, servicing fees, third party charges and mortgage insurance premium. In many cases, the borrower finances these costs through the proceeds of the loan (HUD, 2017; Nakajima & Telyukova, 2017).

The FHA earns a mortgage insurance premium of 0.5% or 2.5% of the MCA depending on the amount withdrawn by the borrower (HUD, 2017). In addition, the FHA earns a premium of 1.25% of the outstanding loan amount from mortgage providers which ultimately the borrower pays (Davidoff, 2015). Therefore, the total mortgage insurance premium built into the cost structure of the product for the borrower is 0.5% or 2.5% of the MCA at inception plus 1.25% of the outstanding loan amount annually (HUD, 2017).

The contract terminates when the borrower dies or permanently moves into a care home. Upon termination, the FHA sells the house and repays the lender the amount owed. The FHA passes on the excess amount to the borrower's beneficiary if the sale proceeds exceed the outstanding value of the loan. In the alternate scenario, neither the borrower, nor the lender bears the loss, if the sale proceeds are insufficient to repay the outstanding loan amount. This is because the FHA insures the HECM borrower against adverse house price risk and the lender against this risk of negative equity through a government insurance with premiums built into the cost structure of the HECM (Nakajima and Telyukova, 2017). Therefore, the borrower's liability is restricted to the value of the house at the point of contract termination.

Since the introduction of HECM, the private market for reverse mortgage has been shrinking (Nakajima and Telyukova, 2017). Further reforms are being considered under the Trump administration and this has led to political debate, still unconcluded as of November 2017 (New York Times, 2017).

What is significant in the US is that financial advisers see ERS as part of a suite of instruments which may be used to meet the financial needs of individuals and households in retirement. The retirement expenditure is classified over four categories; Essential, Discretionary, Contingencies and Bequests. It is envisaged that ERS could be used appropriately to meet contingencies and to meet expenditure needs in circumstances where it offers a lower financial cost to drawing from other parts of the retirement asset portfolio. Liquidating securities in a declining market might prove costlier than drawing down home equity. The encashment of securities in such circumstances gives rise to sequence of returns risk (Pfau, 2016).

In recent years, a crisis has emerged in this market. The FHA insures HECM through the 'Mutual Mortgage Insurance' (MMI) fund which protects borrowers and lenders against the crossover risk of the loan amount at contract termination exceeding the house value at

⁵⁵ Once the HECM contract initiates, the borrower holds the rights to the property and the responsibility to pay property taxes, homeowners insurance and other assessments on the property for the rest of their life. If the borrower fails to pay any of these liabilities, the lender must pay on their behalf through any HECM funds available. However, if the borrower has consumed all funds available through HECM, they are recognised to be in "technical default" on the HECM (see Moulton et al., 2015).

that time (Moulton et al., 2015). The MMI fund supports both forward mortgages (meant for younger borrowers who use these funds to buy a house) and HECM. The MMI fund has been underperforming primarily due to the losses incurred under the HECM program (Goodman, 2015). The fund has lost a total of \$11.7 billion since 2009 because of the HECM portfolio. In 2013, the Treasury forwarded \$1.7 billion to the FHA to restore reserves in the MMI fund primarily due to the losses in the HECM program (HUD, 2017). Actuarial evaluations carried out by Integrated Financial Engineering Inc. show that the economic value of the HECM program has been deteriorating. The evaluation for the financial year 2016 finds the economic value of the program as negative \$7721 million (IFE, 2016). The review also suggests that the economic value of the program will decrease over time as new HECM businesses are acquired. The major reasons are the practices followed by the FHA around property disposition and volatile house prices and interest rates (IFE, 2016).

Apart from resorting to taxpayers' money in 2013, the FHA has been covering these losses through the insurance premium paid by younger, lower-income homeowners with traditional FHA-insured forward mortgages. This has affected the overall health of the FHA's MMI fund and consequently has exposed American taxpayers to the risk of increased tax burdens in the future. Moreover, the uncertainty around the viability of the HECM programs also puts future generations of seniors at risk (HUD, 2017).

To ensure future sustainability of the HECM program, the government implemented stricter borrowing limits in 2013 and is going to introduce further changes to the plan in the near future (HUD, 2017). The 2013 reform, which reduces the loan-to-value ratio offered by HECM but decreases the upfront insurance cost for these lower balances has been criticised by Nakajima and Telykova (2017). The authors argue that reducing the loan-to-value ratio will dramatically reduce the take-up rate of HECM loans because they will appear expensive to older customers.

Therefore, in the light of these developments and the fact that only 3% of eligible homeowners participate in this market⁵⁶, the benefits of the involvement of the government in the US reverse mortgage market remains debatable.

Lessons from Australia

Australia is another jurisdiction where ERS are widely available, subject to regulations (Responsible Lending Laws and National Consumer Credit Protection Act) and to supervision by the Australian Securities and Investments Commission (ASIC). Brokers need a license to offer this product, and independent and specialist advice is required by applicants (Dwyer Harris 2016).

It has been realized that regulation has to comprise far more than licensing or disclosure rules. To ensure that reverse mortgages are attractive to borrowers, further legislative intervention may be required, for example, to deal with customers' concerns about the potential for the rapid depletion of equity. In the new neo-liberal 'risk society', ERS are increasingly seen by governments as a legitimate component of retirement planning. Based on the assumption that a consumer is a rational market player who is entitled to use the equity released from his or her home according to his or her own preferences, the legislation has not prescribed to what extent and for what purposes the home equity may be released. However, if ERS become increasingly considered as an essential way to fund seniors' basic retirement expenses and aged-care without burdening the government, "... then in the future governments may consider that it is necessary to take further steps to regulate the market such as determining: the age when a borrower can take out a reverse mortgage, the rate of equity depletion and how the equity may be spent" (Burns, 2012, p 653).

Lessons from East Asia

Reverse mortgages have also been the subject of policy attention in Asian countries. Ronald and Doling (2012) draw lessons from the developed economies in East Asia (Hong Kong,

⁵⁶ See Consumer Financial Protection Bureau (2012) for participation rates.

Japan, Singapore, South Korea, Taiwan), who had embedded home-ownership-oriented asset-based welfare systems with the use of government interventions and public subsidies. They find that housing markets tend to increase social inequality rather than building up asset capacity among households with lower-income (Ronald & Doling, 2012, p 951). Property-based welfare systems have several contradictions, which became evident with the East Asian economic and housing market crises in the late 1990s and early 2000s. These contradictions concern adequacy, sustainability and access. Regarding adequacy, housing wealth among the elderly does not seem to have significantly alleviated poverty. Regarding sustainability, the property-based welfare arrangements do not seem to be viable in the long run. The downturn in housing markets in the 1997-1998 crisis threatened both the national wealth and the ability of households to draw on housing assets for welfare needs. Home ownership becomes more adequate the more that house prices increase, but the more they do so, the less sustainable the sector becomes. "Essentially, there is a conflict between keeping home ownership affordable for younger entrants and supporting price increases that sustain the facility of housing as an economic supplement to pensions" (Ronald & Doling, 2012, p 953). Regarding access, equity release has in practice proven difficult. During the East Asian economic crisis, selling-up became inadequate due to the drop in the wealth held in housing equity. After the crisis, new and more complex equity-release products have been developed, but homeowners have been reluctant to 'cash-in' their home, and private financial institutions did not like to offer such risky products after the experience with highly volatile housing markets.

In some countries such as Japan, South Korea and Taiwan, the government began to support reverse mortgage schemes for elderly homeowners with low income. In 2006, Japan has introduced the 'House Moving Support scheme for the Elderly', where a government supported Non-Profit Organization (NPO) acquires houses from older homeowners and sublets them to family households with children. The elderly then use the income received from the sale of their houses to rent apartments. To offset the risks of non-payment and vacant dwellings, the government provides a 'contingency guarantee' through the NPO (Ronald & Doling, 2012, p 956).

However, the experience of East Asian countries shows that there are limits to how far home ownership can substitute for existing social protection measures. Home ownership is not a panacea also for the fiscal challenges in Europe. The contradiction in the performance of home ownership as a welfare cushion in terms of adequacy and sustainability can also be considered as an intergenerational conflict between wealthy and older homeowners and less wealthy and younger, non-homeowners (Ronald & Doling, 2012, p 958).

Conclusion

As a conclusion, we see that in the USA and in Australia there are specific supervisory controls for ERS providers, ERS must comply with Responsible Lending Laws (in Australia) and consumers must receive precontractual independent specialist advice (in both jurisdictions). Also, in the United States and some East Asian countries, loan model ERS is capable of receiving support from the Public Sector by way of a guarantee. Notwithstanding the fact that failures and problems in the U.S. and East Asian ERS markets are known, the possibility of estate guarantees for some schemes is a feature of interest, not found in EU Member States at present.

8 Legal framework and legal barriers

Homeownership is widespread in Europe, particularly among older people. With even low-income households holding a significant amount of housing wealth, private real estate has the potential to release financial resources to cater for the satisfaction of the needs of the elderly. But, attaining such an objective demands an adequate design of specific financial product or products.

Because of the low liquidity of housing wealth, homeownership can create a mismatch between disposable income and capital. This, together with the stress on EU countries' public pension systems has prompted the search for instruments to supplement income of retirees and other population groups that are unable to obtain rents from their work.

ERS can be a way to supplement public (and other private) pension mechanisms as they allow the conversion of lifelong investments in homes into cash flows. But ERS show financial complexity, particularly depending on the modality chosen, and their complexity is inversely related to the age of the consumer-contractor, since in the end the duration of the contract is established by the remaining time of life and this (with some exceptions where early termination could occur) is impossible to calculate precisely. This unknown circumstance is especially significant in the case of people with disabilities, who will normally be able to approach this financial alternative at an earlier age. Furthermore, ERS products extend their effects beyond the person who decides to contract it, to the extent that it can affect spouses, heirs, and dependents.

The following sections are based on desk research and responses from the regulator survey (April 2017) on the legal background and regulatory framework across the EU (licensing, brokerage, supervision, law).

8.1 Legal background

8.1.1 Background, summary

The use of real estate to meet the financial needs of elderly citizens and to increase the funds available to them have been known in the past. Concepts such as "life rent" already exist in the nineteenth century Civil Law Codes⁵⁷, and lifetime provisions for beneficiary are known under Common Law⁵⁸. Such uses of property had become less relevant with the modern welfare state, although are still used mainly within family relations environments.

In today's societies, there are growing concerns about the sustainability of public pension schemes and this has prompted efforts to find ways to compensate for potential public sector pension's shortages. Whilst private pension schemes have become significant, the idea of equity release has also entered the practice of credit institutions, and the use of real estate to release equity is perceived as a potentially useful instrument to supplement public pensions. These commercial schemes do not generally follow the traditional Civil Codes mechanisms of Sale in exchange for annuities, but they are designed around the concept of credits and loans that use private properties as a main guarantee.

Previous studies on ERS at EU level, (in particular Reifner, 2007) recognized that in the earlier years of the XXIst century, the general legal conditions for ERS were favorable in most EU Member States, and that with the exception of Belgium there were not relevant legal barriers to their introduction and marketing. Indeed, during the last 20-25 years a number of ERS schemes have been created and developed with aims very similar to XIXth century life rents, or trusts, although they are now based on the value of houses and

⁵⁷ For instance, the Spanish Civil Code arts. 1802 to 1808, Art.1199 of German Civil Code, Art 1706 of the Maltese Codes. Under Common Law, the provision of trusts for the lifetime of a beneficiary is not an equivalent of present day ERS, but in some instances, they were conceived with a similar aim

⁵⁸ For a general view see Harding (1966).

apartments combined with modern legal and financial instruments such as mortgage credit agreements and insurance products.

One of the difficulties for the introduction of a European wide ERS product, adequate for sale in the Internal EU Market is the legal definition of the concept. Equity Release as a noun derives from economic reasoning, and has not yet been defined precisely in legislation, even less so in a way that is applicable for the different types of products being marketed at present, or potentially.

In fact, the legal treatment of ERS differs very much between Member States of the EU. Specific legislation in relation to ERS as such is uncommon in Europe with only a reduced number of Member States having regulated some of these schemes (as in UK or Ireland)⁵⁹. Other jurisdictions give incentives to create types of ERS (as it is the case in Spain or France). The rest deal with ERS within their general civil law (Sale Model ERS) and financial administrative law (Sale Model linked sometimes to insurance, and Loan Model). This latter group of countries do not specifically acknowledge the possibilities of ERS within their existing legislation, and in accordance with the answers received from regulators and experts, they may not have a clear idea as to how to promote this kind of alternative use of homes and real estate properties. Furthermore, the existence in practice of schemes which do not precisely comply neither with the Sale Model nor with Loan Model of ERS make defining ERS as a whole a very difficult exercise⁶⁰.

In practice, notwithstanding the difficulties to find a general definition and the lack of precise definition and of regulation, for years some schemes have been provided for by private contract law, mainly in schemes of the Sale Model type and some credit institutions, notably in UK, Spain, Denmark, and the Netherlands, have offered schemes to liquidate part of the real estate equity owned by elder citizens, profiting either from a lack of or a loophole in legal regulation, or from using regulated existing mechanisms such as second mortgages, sale contracts or credit lines.

8.1.2 ERS and the 2014 MCD

Directive 2014/17 / EU of the European Parliament and of the Council of 4 February 2014 on credit agreements concluded with consumers for residential real estate and amending Directives 2008/48 / EC (MCD) excludes ERS from its scope. The concrete exclusion affects reverse mortgages, pension mortgages, and in general any type of credit mechanism that uses residential property of consumers to finance their needs after the date of retirement. It is striking that in spite of the MCD's declared strong desire for consumer protection, the European legislator excluded (Preamble, 16 and Article 3, paragraph 2, paragraphs a-i and a-ii) the so-called mortgage pension credit agreements within the scope of the Directive. These excluded contracts are transactions that, in the words of the drafter of the Directive, operate as a reverse mortgage or as an annuity mortgage (Preamble 16). It is even more astonishing that the EU legislator should justify this exclusion (Preamble 16, in fine) in the fact that such agreements do not involve the granting of a credit and (...) and therefore, it was not necessary to assess the consumer's solvency.

⁵⁹ In the UK and Ireland ERS have a significant market. These countries have developed their own regulatory body, in which mortgage as well as pension legislation has been adapted to the special features, risks and needs of products which "reverse" expectations of what an ordinary mortgage loan is, especially in contract and consumer law. Their involvement concerns consumer protection issues in general, and duties to provide information in particular (Reifner, 2007).

⁶⁰ For instance, whilst Sale Model ERS are usually referred to as linked to the "Renta Vitalicia of Civil Codes" (or similar denominations), there are some recent samples of regulated private law contracts which serve to the effect of ensuring life care for elderly people on exchange for the handing over to the rent/care/maintenance provider of a property. Such products can be created using any property as a guarantee, this is: it does not need to be immovable, though immovables are not excluded. This property can be transferred either by the recipient or by a third person having the recipient as its beneficiary (Law 2/2006 of Civil Law of The Autonomous Region of Galicia). Also, some Loan Model products are known for mortgages over second homes, whilst the general type is created as a charge on the dwelling house of the retiree.

It should be recalled that Article 2 of the Directive recognizes the possibility for States to maintain or adopt stricter consumer protection measures. There are many reasons to justify regulation of reverse mortgages and life annuity mortgages, as a national option in the national transposition rule, or in other legal instrument:

- First, the expression (Preamble 16) of the European legislator, in the sense that such products do not incorporate credit rights, is in our view inconsistent because the same text (Article 3-2-ai and aii) uses the noun "mortgage pension credits" for these products that, in our view certainly incorporate credit rights generally guaranteed by a mortgage agreement (for example in the modality excluded in art 3 -2-ai).
- Second, the excluded mortgage operations (Art 3-2-ai and 3-2-a-ii) always involve the contracting of products that are complex from the financial and social perspectives. Sometimes they are linked to insurance policies, and they always carry consequences for the consumer contractor and for their family, dependents and heirs.
- Third, these products are always oriented to people of a certain age (usually over 60 -65 years), or disabled people who resort to this way of releasing rents at times when other possibilities (such as paid work) are unattainable for them. Therefore, in almost all cases, contractors are in a situation of special weakness that deserves legal tuition.
- Fourth, the products to which we are referring include in its very inception an important social and welfare component. They have the potential of resolving (at least in part) the problems arising from the lack of capacity of public pension systems, from the needs of an aging population and from the shortcomings of societies that are less and less willing to give full and direct attention to their elders.
- Fifth, the reverse mortgage market (and ERS markets in general) affects not only face-to-face contracts. On the contrary, a large part of the conflicts that are being settled judicially in jurisdictions such as Spain are a consequence of contracts signed by foreigners, resident or not in the EU. And, particularly in such cases consumers obtained pre-contractual information by electronic means. Electronic contracting of ERS entails additional difficulties for effective e-governance of financial products sold to consumers in the European internal market and in the global markets.

As the Directive excluded ERS, perhaps a future new instrument may fill the gap.

8.2 Situation in the six member states

8.2.1 Germany

Enabling but complicated legal framework: Products can exist and legal impediments are no longer deemed to be a barrier for providers. While there is no specific contract form, the usual legal provisions are sufficient for providers to develop these products and rules such as the forbidding of charging interest on interest (anatocism) is not seen by the legal profession as a barrier since a number of solutions already exist to conform to this rule. One issue, however, that limits the development of Loan Model ERS is the costly condition of being required to hold a banking licence (i.e. the own capital requirements associated with bank activities and general regulation thereof).

A neutral tax treatment: There is no specific legislation governing ERS in Germany, neither in the civil code nor in tax or other law. Payments from reverse mortgages are not treated as a form of income and merely amount to a loan. No income tax is therefore payable and there does not appear to be difficulty with regards to incompatibility with receipt of social benefits by the lower income groups. In addition, as explored in the following chapters of this case study, while not specific to ERS, a small government subsidy scheme was introduced in 2008 to allow for the same saving incentives awarded to state sponsored pension schemes to apply to residential loans for acquisition of one's own property to live in ('Riester Home Subsidy').

Reliance on insurance capabilities: Potentially interested providers in Germany have mainly been banks that would then work with insurance partners in the delivery of the product, however some insurers have and are marketing such products (e.g. the Ergo insurance undertaking with its Ergo Flex 55 Plus product). The construct of the product and the existence of longevity risk means that a provider licensed as an insurer (§§ 1, 5 VAG, § 1 VVG) is generally required for the distribution of a Loan Model ERS. This is because monthly payments depending on an uncertain event in the future (point of death) are legally defined as an insurance business, which falls under insurance law and requires a BaFin licence as an insurer and special control mechanisms. It is therefore difficult for banks to offer ordinary reverse mortgage products without entering into a joint venture with an insurance company in Germany. Some alternative constructs have been tried such as using a fund as was the case for the short-lived attempt to market ERS by the Investitionsbank Schleswig Holstein.

8.2.2 Hungary

Actually, neither the sales model nor the loan model ERS are explicitly defined by Hungarian law. Both models are treated under the civil code. But they are treated differently regarding their economic construction.

According to this, the legal framework treats *loan model ERS* product types (the Hungarian term: "időskori jelzálog járadék") as a provision of loans. The respective legal definition is thus the definition of loan agreement, which is codified in sections 6:383 - 6:387 of the Civil Code. Because the loan agreement is collateralized with a mortgage, the title VII of the Civil Code is relevant. But concerning the specific design of a loan model ERS product, legislation is not going beyond the regulation of common mortgage constructions. Regarding the providers of loan model ERS, they suppliers have to draw a license at the Hungarian Central Bank according to Section 4 (9) Act No. CXXXIX of 2013 on the Hungarian Central Bank.

The product type of *sale model ERS* (the Hungarian term: "örökjáradék") is basically regulated following the legal basis for lifetime annuity contracts (the Hungarian term: "életjáradéki szerződés"), which are defined in section 6:497 Act V of 2013 in the Civil Code. Insofar the annuity service is extended by e.g. the provision of care, 6:491 - 496 Act V of 2013 in the Civil Code provides the relevant legal basis.

According to section (1) b) of a new regulation concerning insurance activities from 2014 (2014. évi LXXXVIII. Törvény a biztosítási tevékenységről), lifetime annuity services are defined as *insurance services*. Due to this regulation, the insurance business is differentiated into two main branches on the basis of the insurance companies risk criteria:

- the branch of *non-personal-life-insurance companies* ("nem-életbiztosítási"), which are defined in the first annex of the respective legal act,
- the branch of *personal-life-insurance companies* ("életbiztosítási ágak"), which are defined in the second annex of the respective legal act.

According to this regulation, since January 2015 lifetime annuity services belong exclusively to the branch of personal life insurance companies. According to Section (3)247 of the respective legal act (2014. évi LXXXVIII. Törvény a biztosítási tevékenységről) ERS contracts have been based on the Civil Code since January 2016. Insurance companies which belong to the first branch are generally not allowed to run a life insurance branch in parallel. But there are certain exceptions. For example, life insurance companies may get the allowance to run accident insurance or healthcare coverage in parallel. Regarding supervision, due to the respective legal act from 2014 (2014. évi LXXXVIII. Törvény a biztosítási tevékenységről), providers of such products are under the supervision of the Hungarian Central Bank since 2015.

8.2.3 Ireland⁶¹

If it is a *lifetime mortgage*, this is a financial product. The mortgage provider is licenced by the Central Bank of Ireland (CBI). If a mortgage intermediary is involved in the transaction, it too is licenced by the CBI. If the credit institution is a significant one under the *Single Supervisory Mechanism*, then the European Central Bank may be the competent authority for regulation of the mortgage provider. The directors and certain executives of firms regulated by the CBI have to comply with the CBI's code which aims to secure the *fitness and probity* of those officers.⁶²

In addition all staff in retail customer facing roles must have a prescribed degree of *competency* in order to uphold the standard of professionalism required to serve such customers appropriately.⁶³

If the product involves either a full or partial sale (*a home reversion*), then the product represents a property transaction, similar to a conveyance. The transfer must involve a solicitor, meet all the legal requirements necessary to give effect to the property title transfer, and be registered with the Property Registration Authority.⁶⁴

Retail Credit Firms are licensed by the CBI. These include firms which provide lifetime mortgages and home reversion solutions.

The firms which provide a financial product or a home reversion product must also observe the requirements of the Central Bank Consumer Protection Code.⁶⁵ This represents a form of Conduct of Business regulation. Any advertisements of the product must state who the provider is regulated by for conduct of business and, if different, who the provider is licensed by in accordance with the European Union Single Passport principle. Individuals who are subject the Fitness and Probity regulatory provisions may have to be approved in advance of filling those roles, depending on the role's importance to the governance, management and direction of the regulated firm's activities.

Regulation is enforced through a variety of tools, which include

- Initial licensing
- Themed inspections of a sector or group of suppliers within a sector
- Annual and more frequent information returns
- Independent reports from auditors
- Directions to the licenced firm to perform or to desist from performing certain actions
- Administrative sanction including fines, temporary or permanent suspension of licences or parts thereof
- Prohibitions on individual officers in firms from conducting activity within the sector

Under the Consumer Protection Code, a consumer may pursue a complaint with financial service provider. Redress often takes the form of restoring the claimant to the situation which existed prior to the event giving rise to a valid and accepted claim (the *status quo ante*) . If an individual is dissatisfied with result of the complaint having exhausted the

⁶¹ This explanatory note does not represent itself as a legally authoritative or exhaustive guide to the law dealing with equity release in Ireland for use in financial decision making. Rather it should be viewed as a broad overview of the relevant domain from a policy and research perspective.

⁶² See <http://www.centralbank.ie/regulation/processes/fandp/Pages/IntroductiontoFitnessandProbity.aspx>.

⁶³ See <http://www.centralbank.ie/regulation/processes/minimum-competency/Pages/default.aspx>.

⁶⁴ See www.prai.ie.

⁶⁵ See <http://www.centralbank.ie/CONSUMER/CPC/Pages/home1.aspx>.

financial service firm's procedures, they may take it to the Financial Services Ombudsman (FSO) for investigation and adjudication. A 6 year time limit applies to the use of the FSO scheme. THE FSO does not charge a consumer for the services of that office.

An individual consumer may separately pursue a complaint through the Courts. The FSO will not investigate claims being pursued through the Courts. The relevant Court is determined by the size of the amount at issue and broadly the thresholds are as follows

- Small Claims Court: claims < €2k
- District Court: claims < €15k
- Circuit Court < €75k and not within the scope of the District Court
- High Court > €75k

8.2.4 Italy

Only one type of ERS is currently available in Italy: the *presitito vitalizio ipotecario*, which is qualified as a Loan Model. This product is a lifetime mortgage, a financing secured by mortgage of residential property that enables the owner to convert into liquidity part of the economic value of the property. It is structured as a medium or long loan contract between individuals aged 60 or older and banks, credit institutions or financial institutions under the supervision of the Italian Banking Law⁶⁶ secured by first rank mortgage on residential property. According to this financial product, credit can be granted with annual capitalization of interests and costs, and reimbursement in a lump sum at the end of the contract. As such, this financial product is regulated by legislation (See Law of 2nd Dec. 2005, no. 248; Law of 2nd Apr. 2015, no. 44; Administrative Order no. 226 of 22nd Dec. 2015). The subscriber will not pay any costs during the contract period and the interests will be capitalized together with the capital. At the death of the subscriber either principal and capitalized interests will be paid back to the bank by the heirs or the bank will proceed by selling the house that has been mortgaged by the bank.

In order to stimulate the demand for this kind of contract, significant tax breaks have been introduced recently. They are represented by the exemption from registration, from stamp duty, property tax and exemption from taxes on "concessioni governative".

Prestito Ipotecario Vitalizio, PIV, is introduced in the Italian system through the Law no. 248 on the 2nd of December in 2005. The regulation framework that regulates the offering of the ERS tool has been updated in 2015 with the Law no. 44 on the 2nd of April and furtherly regulated in 2016 with the Administrative Order no. 226 presented on the 22nd of December 2015 but activated on the 16th of February 2016.

The first law, n.248 in 2005, introduced for the first time the PIV in the art. 11 paragraph 12: "The PIV is a financial tool reserved for individuals over 65 years of age that is aimed at granting, by companies and other credit institutions, medium and long-term loans with annual capitalization of interest and expense, and full repayment on maturity in one and only installment, through first-rate mortgage on residential real estate." In a nutshell, this law provides for 65-year-old people the possibility to "mortgage" their house in order to receive a loan.

The law no. 44 of 2015 better specified the conditions and the limits that regulates the PIV. First, the law outlines the subjects allowed to grant such specific loan. Only banks, other financial intermediaries and institutions can activate the loan. Second, the age of the applicant is reduced to the 60 years. Third, the legal arrangements of the loan are specified in terms of

- timing and cost of repayment and reimbursement;
- who are the subjects that are in charge of the repayment once the 60 years old-applicant deceases (specifically, paragraph 12-quater);

⁶⁶ See art. 106 Legislative Decree of 1st Sept. 1993, no. 385.

- the property transfer agreement;
- the regulation of the accidental acts that could reduce the value of the real estate and the consequent reimbursements;
- the sale agreement of the real estate that is entirely on the financial institutions;
- rights and obligations of the two contracting parties.

The Administrative Order no. 226 released on the 22 of December 2015 introduces few characterizations of the ERS's regulation such as:

- the duties of the sponsor (e.g. Bank) concerning the submission of any document of the amortization plan in order to give adequate information about the risks related to the loan;
- the necessity of specifying all the expenses related to the loan practice;
- the gratuity of the investigation in cases in which the loan will not be successful;
- the specific cases in which the sponsor is entitled to ask for a reimbursement of the whole loan in one instalment.

8.2.5 The Netherlands

As shown above (sections 4.2.5 and 7.2.5), there are four ERS products in the Netherlands: one Loan Model and three Sales Models.

Contrary to a mortgage loan or a loan type equity withdrawal product, the sale-and-leaseback types of product are not considered a financial product by Dutch law (Blok, 2015). Such a contract is regulated via the Civil Code (Book 6 on contracts and Book 7 on special contracts). The regulator is the ACM (Authority for Consumers and Markets, 2016). This implies that consumer protection is based on the Law of Consumer Protection (*Wet handhaving consumentenbescherming*). For a mortgage loan or a loan type equity withdrawal product, which are considered as a financial product by Dutch law, consumer protection is based on the Law on Financial Supervision (*Wet op het financieel toezicht*) which applies to financial products (Blok, 2015; Overheid.nl, 2016a,b; Rijksoverheid, 2016a; Thuisborg, 2016). A loan type product is therefore considered a normal financial product.

As a reaction to the crisis, the maximum LTV no longer is voluntarily regulated by mortgage code, but by government (Haffner, 2017, p 22).

"The Minister of Finance introduced the *Temporary Regulation for Mortgage Credit (Tijdelijke regeling hypotheek krediet)* on 12 December 2012 as a reaction to the impact of the 2008 GFC on the Dutch housing market. It regulates the income criteria for mortgage credit (LTI), as well as the maximum LTVs (Boelhouwer & Schiffer, 2015). The former aims to prevent affordability problems; the latter excessive lending and related risk of negative equity. Therefore, they both were set more strictly than before (in due course).

Since 1 August 2011, the norms for the LTI which up to then were only obligatory for mortgage loans that were backed by a National Mortgage Guarantee (see next section), were prescribed by central government for any mortgage loan. These were obligatory from 1 August 2011 on via the code that mortgage lenders adhered to. Since 1 January 2013 they were based on the Temporary Regulation for Mortgage Credit.

Until 2012 the LTV was determined voluntarily by the mortgage lenders in their sector code of conduct as well and could be much higher than 100% as it was possible to cover the acquisition price of the dwelling plus transaction costs (Francke, Van de Minne and Verbruggen, 2015; Haffner, van der Veen and Bounjouh, 2014). Changes in the LTV ratio commenced by 1 January 2011, when the banks in their sector code determined that interest-only loans would be maximized to 50%. From 2012, government has been reducing the LTV with one percentage point per year with the aim of setting a maximum of 100% in 2018 (see also Boelhouwer and Schiffer, 2015)." (Haffner, 2017, p 22).

“The Dutch mortgage credit regulation apparently already goes a long way in the direction of the EU Mortgage Credit Directive (MCD) in the protection of the consumer. In the case of a financial product as a mortgage loan, the Law on Financial Supervision (*Wet op het financieel toezicht*) regulates the supervision of financial institutions and the financial system (AFM, 2016a; Overheid.nl, 2016b; *Rijksoverheid* 2016a; see also Reifner, 2009b). Final responsibility rests with the Ministry of Finance, while the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM) supervise. The former’s responsibility is prudential supervision, while the latter’s responsibility is the conduct of the entire financial market sector, including the protection of the consumer: savings, investment, insurance and loans. This implies that each sector requires its actors to have a sector licence. To conform to the Mortgage Credit Directive (Directive no. 2017/17/EU of the EU-Parliament), the Dutch Law on Financial Supervision will only have to be adapted slightly (*Nederlandse Vereniging van Banken*, 2016; Overheid.nl, 2016b; *Rijksoverheid*, 2016i). The adaptations necessary to the private law will be added via a new title in Book 7 of the Civil Code which is about special contracts (see chapter 2). The proposals include for suppliers to adhere to a European standardized information sheet for providing pre-contractual information and for a uniform calculation of the share of costs. The expectation is that implementation will take place by the summer of 2016 (AFM, 2016c; Blok, 2015).” (Haffner, 2017, p 22).

Half July 2016, the Mortgage Credit Directive was implemented in the Netherlands.⁶⁷

Ergo, there does not seem to be any special legislation for ERS products.

Tax (dis)incentives: “A point of attention must be that lump sum extractions that are somehow maintained as other wealth, for instance in a savings account, will be taxed as income from other wealth, while the owner-occupied dwelling would be exempted from income tax (imputed rent taxation), once the mortgage loan is repaid” (Rabobank, 2016b). Taxation of housing is discussed in the case study for the Netherlands (Haffner, 2017, p 18).

One can deduce also, that a reverse mortgage will not be treated like a ‘normal’ mortgage loan in income tax as it will not be repaid within 30 years in an annuity or linear pattern. We assume that one can then deduct it from ‘taxable other wealth’, as in personal income tax the net wealth (wealth minus debts) is being taxed as income from wealth.

A so-called Stayersloan (*Blijverslening*) can be designed in the ‘right tax format’, depending on whether it is a consumer’s loan, a mortgage loan or a reverse loan.⁶⁸

There are no *subsidies and re-insurance by the State*. The State is not involved in the ERS markets.

8.2.6 The United Kingdom

Regulator

The Financial Conduct Authority (FCA) regulates firms advising or selling equity release schemes. These firms are expected to have relevant qualifications to operate as ERS providers or advisers and have to meet certain standards set up by the regulator.

Equity Release Council

The Equity Release Council (ERC) is the industry body for the equity release sector. ERC is an expansion of the former SHIP and is a representative body of the providers, qualified

⁶⁷ <http://www.nu.nl/wonen/4432179/afroندن-hypotheekaanvraag-verloopt-steeds-sneller.html>; last accessed 5 February 2017

⁶⁸ See page 6 and 8, Haffner 2017; see also: <https://www.svn.nl/contact/veelgestelde-vragen/Categorie?categorienaam=Blijverslening>; see question 16.

financial advisors, lawyers, intermediaries and surveyors who work in this sector. The Council and its members are responsible to ensure that customers can safely use this form of borrowing to support their retirement income. They are also responsible to promote public and political awareness on ERS as a solution to many of the financial challenges affecting people over the age of 55 years in UK (ERC, 2016).

8.3 Situation in other countries

This section refers to countries outside the main reference countries of this report. However, some of the features identified in their respective jurisdictions are of interest for the overall aim of this project, i.e.: the design of a feasible model of ERS to be used across the EU.

The following countries' information is organised in accordance with the amount of existing Commercial ERS being sold in each one of them, as well as following existing specialist debates and research into ERS, and taking into account the quality and detail of answers to IFF's enquires.

8.3.1 Spain

Regulator, supervision and licences

In Spain, both Loan Model and Sale Model of ERS can be sold privately. However, when such products include an insurance or an investment element, the insurance provider must have a license from the Directorate General of Insurance, a body under the Ministry of Economy and Competitiveness. Also, if the product has an investment component, the providers must hold an authorization to raise funds from the public and to provide investment services, activities reserved and regulated by the Bank of Spain and the CNMV. Beyond the above, when banks and credit institutions offer ERS, such activity falls within the realm of the regulations and supervision of the Bank of Spain, not only because of the product itself, but also because of the entity selling it.

In Spain, there is one specific type of Loan Model ERS, a reverse mortgage or *hipoteca inversa* that must fulfill a number of requirements to be granted some tax benefits. And this specific type of ERS in accordance with Law 41/2007 must be provided for by credit institutions that operate under the regulatory competences of the Bank of Spain.

Furthermore, when any ERS product (Loan Model or Sale Model) includes an insurance element, its providers must have an insurance license and must operate within the regulatory realm of the *Dirección General de Seguros*, a General Directorship of the Ministry of Economy (nowadays Economy and Competitiveness).

Regulation and products

There is not a general regulation for ERS in Spain. However, Loan Model ERS products are partially contemplated in Spanish Laws, as one specific type of Loan Model ERS is linked to tax benefits. The Spanish Mortgage Act reformed by Law 41/2007 related to the Personal Tax law introduced some regulation by way of linking certain tax benefits as well as stamp duty and fee exemptions granted to purchasers of the type of reverse mortgage that fulfils the requirements regulated in this Law. Other products offered with the same name, *hipoteca inversa* do not necessarily comply with the strict limits signalled in Law 41/2007 (and its development through a Ministerial Order) and do not qualify for the tax benefits created by Law 41/2007⁶⁹. There is a guide published by the Bank of Spain and the Dirección General de Seguros with recommendations for reverse mortgage contracts. It

⁶⁹ Pérez Carrillo, E. F. "Servicios financieros de liberación de activos inmobiliarios como complemento a la pensión de jubilación: marco jurídico en los Estados de la Unión Europea, in Alberto Muñoz Fernández (coordinador), *El cuidado de las personas dependientes ante la crisis de Bienestar*, Valencia, Tirat lo Black, 2013, pp 327-346.

was passed for the Loan Model regulated ERS, but its recommendations are useful for any Loan Model ERS in this country.

Some Resolutions by the General Directorship for Public Notaries and Registrars (an Institution within the Ministry of Justice) have clarified the reverse mortgages do not guarantee loans, but credits, and that therefore, interests can be added to capital up to the limit of the credit, without this being anatocisms⁷⁰.

The reverse mortgages that are specifically regulated in Law 41/2007 are a product with detailed requirements completed in successive modifications of that Law. In accordance with First Additional Provision of Law 41/2007 such ERS products must be a mortgage loan or a credit guaranteed by mortgage on real property that is the residence of the applicant. The applicant and the beneficiaries that can be designated in the contract, must be (all of them) of 65 years of age or more. Following a reform in 2013, the applicant and the beneficiaries can also be persons that have been declared dependants by Law; or that have been declared handicapped with a level of disability greater than 33%⁷¹. The mortgagee and beneficiaries can receive the loan or credit on a single lump sum, or in periodic instalments. The loan is only paid back to the creditor and the guarantee becomes enforceable, when the borrower dies, or, if so stipulated in the contract, upon the death of the last of the beneficiaries. An additional requirement for this regulated Loan Model ERS is that the Mortgaged home has been valued and is insured against damages in accordance with the terms and requirements established in articles 7 and 8 of Law 2/1981, of March 25, on Mortgage Market Regulation⁷².

Under the regulated Loan Model ERS, in case that the mortgage asset has been voluntarily transmitted by the debtor, the creditor can declare the anticipated maturity of the loan, unless the guarantee is replaced in a sufficient way. Upon the death of the debtor, or if stipulated in the contract upon the death of the last beneficiary, their heirs may cancel the loan within an agreed period, by paying all the debts due to the credit institution (capital and interest); but the creditor is not allowed to demand any compensation for the cancellation. When the loan or credit is extinguished and the heirs of the debtor decide not to reimburse the debts with their interest, the creditor may only recover from the assets of the inheritance.

As we have already mentioned, this regulated type of Loan Model ERS can be provided only by credit institutions, financial credit institutions and insurance companies authorized to operate in Spain⁷³.

In accordance with the Additional Disposition number 4 of Law 41/2007 the annuities or periodic income obtained by the beneficiary as a result of the reverse mortgage may be

⁷⁰ Such is the opinion of The General Directorship for Public Notaries and Registrars as shown in its Resolutions of 1st October 2010 and of 4th November 2010. Those Resolutions interpret reverse mortgages within the limits of Law 41/2007.

⁷¹ The text in force was introduced by article 5 of Law 1/2013, Law on measures to improve mortgage debtors protection, to restructure debts and to promote social housing (rented).

⁷² In order to grant specific protection to those who underwrite reverse mortgages, in paragraphs 3 and 4 of the 1st Additional Disposition, it has become a necessary condition to receive professional advice on the characteristics and consequences of the product. Independence implies, as it has been interpreted, that the advisers cannot be linked to the entities offering the reverse mortgage and have to take into account the personal needs and circumstances of the person. Vid Muñoz Martín, E. "La hipoteca inversa: análisis teórico y modelo actuarial práctico", Trabajo Final de Máster en CC Financieras y Actuariales, Universidad Carlos III, Madrid, 2017. However, it must be stressed that the independent advice mechanisms were to be determined by the Ministry of Economy (as well as the regime of transparency and commercialization specific for this type of reverse mortgages), and they have not been so specified to date.

⁷³ Number 2 of the first additional provision drawn up by the eighth final provision of Law 5/2015, of April 27, on the promotion of business financing.

used wholly or in part for acquiring an insured pension plan⁷⁴ and in this case, after ten years from the payment of the first premium of the insurance plan, the investment into the insurance pension plan becomes exempt from personal taxation. There is no flexibility to transfer provisions to the insured plan to other instruments (or vice versa).

Law 41/2007 has provided the basis for an enhancement of pre-contractual information, which needs further development by the Ministry of Economy (by means of a Ministerial Order). This regulatory development has not been approved yet⁷⁵, but instead, the Law 41/2007 has been (partially) developed with a Tax Ministry Order, Order EHA/2899/2011 on Transparency and Financial Services Clients Protection. Article 32 of this EHA deals with the regime of reverse mortgages and establishes a number of pre-contractual obligations for the regulated Loan Model ERS, as well as for retirement pensions. Whilst the EHA/2899/2011 was published to protect consumers of reverse mortgages, the reference made in it to Law 41/2007 limits its scope of application to the specific regulated model in that Law.

The requirements imposed under Order EHA/2899/2011, article 32 are: a) The delivery of a mandatory binding offer. b) The provision, at the latest on delivery of the binding offer of an independent advisory service. c) The provider must give to the consumer pre-contractual information in regulated specific sheets that comply with the provisions of Annex III and IV of the EHA⁷⁶. d) Mandatory advice that includes *personalized recommendations of the entity to each specific customer regarding the banking service*. Furthermore, when the mortgage is witnessed by a notary, he must make sure that the independent and personalized advice has been delivered, and must warn the contracting party (the consumer) in the event that the reverse mortgage is formalized against the recommendation made by the adviser.

Outside the regulated specific Loan Model ERS, one Regulator has explained (answering to the questions of IFF) that reverse mortgages are subject to the same information and contractual requisites as any residential mortgages (in accordance with an Order of the Ministry of Economy of 5 May 1994 (as updated) that introduced transparency obligations for residential mortgages⁷⁷, and with supplementary regulations). But he also expresses that, if the Transposition into Spain of the MOD excludes ERS, previous regulation should at least be maintained.

Following the mandate given by Order EHA/2899/2011, in 2015 the Bank of Spain together with the General Directorate of Insurance and Pension Funds published a "Guide to access to reverse mortgage". This Guide is a non-binding instrument but it contains useful information for consumers interested in reverse mortgages, in general.

Spain has not incorporated yet the MCD to Spanish National Law and the EU Commission has already announced proceedings against this country. As far as we know there is some debate on how to implement the transposition, but there have not been analyses related

⁷⁴ Such plan must be contracted under the terms and conditions provided for in section 3 of article 51 of the Law 35/2006, of November 28, on Personal Income Tax and partial amendment of the Corporate Income Tax, Non-Resident Income and Equity laws.

⁷⁵ CERMI (Comité español de personas con discapacidad), *La hipoteca inversa, Guía informativa para uso de personas con discapacidad y sus familias*, June, 2013

⁷⁶ Order EHA / 2899/2011 includes in its Annexes III and IV, respectively, the Precontractual Information Sheet (FIPRE) for reverse mortgages and the Custom Information Sheet (FIPER) for reverse mortgages. This Order instructed the Bank of Spain and the General Directorate of Insurance and Pension Funds to jointly prepare a "Access Guide to the Reverse Mortgage".

⁷⁷ Order of 5 May 1994 on transparency of the financial conditions of mortgage loans. Among such obligations: to give potential borrowers requesting information on loan conditions an information booklet with detailed information on the applicable conditions for a given type of mortgage; the obligation to provide the consumer with a binding offer (once the appraisal of the asset has been done) was also regulated by these Order.

to the possibility of integrating ERS with the transposition Law⁷⁸. There is a Draft Project (dated 2016) of the Spanish Government for the incorporation of this MCD into Spanish Law. In this project, article 2.4 refers to exclusions and it replicates almost identically the exclusions of Article 3 of the Directive. Therefore, if such Draft Project was to be made into law, ERS would not be included in the transposition law in Spain.

As expressed earlier, article 2 of the MCD allows for stricter country regulations to protect consumers. Experts and regulators consulted recommend that Spain takes the option of extending (or of adapting partially) the regime of ERS in Law 41/2007 to other Loan Model Schemes. And experts agree that the transposition law should at least not impede the maintenance of the relative protection given by Law 41/2007, and the EHA/2899/2011 to the specifically regulated Loan Model ERS.

In relation with Sale Model of ERS, articles 1802 to 1808 of the Spanish Civil Law and related regulation in the Commercial Law offer a general framework for such products under the concept of '*renta vitalicia*' (life rent/pension), combined either with a tenancy contract or a '*usufructo*' (right to use and rent). Also, there are different private law contracts (some regulated at regional level)⁷⁹ that can be assimilated to this type of Sale Model ERS. They serve to the effect of ensuring resources for elderly people in exchange for the handing over of a property to the rent/care provider. The traditional *renta vitalicia* involves risks such as that of insolvency of the rent provider, but can be linked to insurance products to diminish such risks although insurance products involve mandatory licencing for the insurance providers.

Providers

In Spain both ERS models could be provided for privately. And there is information that arrangements similar to the Sale Model can be found within families.

In relation with Commercial ERS in the past the Spanish CAJAS (a type of community financial institution) offered Loan Model ERS (Pérez Carrillo, 2013). Due to the 2007 financial crisis and the practical disappearance of those institutions that were transformed into or absorbed by banks, that part of the ERS business in Spain does not exist now. Banks continue selling ERS and although ERS products are not widely published, there is evidence (promotional websites, case law, etc.) that ERS is commercialized at present, as it has been so for the last 20 years. In accordance with answers received, there are not specific studies to show the precise number of providers and intermediaries operating ERS, but the general impression of experts and regulators is that providers are being very cautious in offering this product as their benefits appear yet uncertain. One intermediary has been quoted as saying that reverse mortgages are complex products that require strong pre-contractual explanations to the client to become adequate as a product to be sold to consumers, and that such complexities lead to a reduction in the providers operating in this sector. The same intermediary says that only a couple of non-banking entities offer it after 2014, when in the 2007-2010 period there were more than twenty.

Some international banks and intermediaries also offer ERS (mainly Loan Model) to non-Spanish expatriates that reside in Spain, or to any non Spanish individual that owns real estate property in Spain. Within this group of providers, we found Danske Bank

⁷⁸ Some exception can be made of the Blog of Commercial Law of the University of León that published a note recommending that the transposition includes regulations of Reverse Mortgage and other ERS beyond the narrow boundaries of their regulation in Law 42/2007. PEREZ CARRILLO, [Hipotecas inversas y productos de liberación de activos inmobiliarios ante la transposición de la Directiva 2014/17/UE](http://blogs.unileon.es/mercantil/hipotecas-inversas-y-productos-de-liberacion-de-activos-inmobiliarios-ante-la-transposicion-de-la-directiva-201417ue/), <http://blogs.unileon.es/mercantil/hipotecas-inversas-y-productos-de-liberacion-de-activos-inmobiliarios-ante-la-transposicion-de-la-directiva-201417ue/>

⁷⁹ One example of these contracts, that is regulated at Regional Level in Law 2/2006 of Civil Law of the Autonomous Region of Galicia is based in property (which does not need to be a private residence, or even an immovable) that can be transferred either by the recipient or by a third person to obtain liquidity. The acquirer must provide for care, or for a pension, to the property transferor or to the beneficiary, in his or her old age. We consider that this scheme includes the possibility for the acquirer to contract an annuity or a similar instrument for the benefit of the transferor (Reifner, 2007).

International, S.A., N.M. Rothschild & Sons Limited and Landsbanki Luxembourg S.A.; and as intermediaries Hamiltons Financial Services and International Property Finance Spain Limited. The names of these institutions were linked to prominent court cases related to the (wrongful) marketeering of ERS in Spain.

Barriers and problems

Experts and regulators indicate that ERS in Spain is hindered by the general perception that they are new, expensive and risky products. Culture of home ownership and family ties to the home are also barriers.

Furthermore, there have been some media advertised court cases involving ERS where Spanish courts generally decided for borrowers and their heirs. Such published cases evidence the risks involved in ERS. By way of examples to show the problems which have been judicially dealt with, on 1st of March 2015 the Court of Benidorm (*Juzgado de Primera Instancia*) declared an Equity Release Contract null and imposed upon Danske Bank International, S.A. the duty to remove the mortgage charge over the client's property. The Court also ordered that the bank should assume all investment losses and should return to the clients the payments made by them. The Judge in this ruling explained that the consumers, in this case a Norwegian couple, were deceived with this financial product, as they did not understand that they were entering into a highly complex product. Also, the Judge added that the customers did not understand financial products but they had trusted in the Bank, and that they did not know that they were entering into a highly risky financial product or what the consequences could be. Another case is Landsbanki Luxembourg S.A. vs. Borrowers, decided on the 25th April 2015 before the Court of First Instance 8 of Marbella. Here, the court invalidated the foreclosure proceedings against the borrowers and terminated the case on grounds that the lender Landsbanki Luxembourg S.A. had grossly failed to file the adequate documentation alongside the foreclosure petition. As a result, the bank was barred from filing foreclosure proceedings against this borrower. In case 535/2012 of the Provincial Court of Salamanca, the court decided against the insurer CXG-Aviva-Caixa de Seguros y Reaseguros and in favor of the heirs of the insured in a policy linked to a reverse mortgage. The debtor had been a person of 87 years of age to whom the administrative authorities had recognized a degree of disability of 94%, and that had died 2 years and 5 months after having signed the contract. This judgment also declared the annulment of the contract of rent-insurance and condemned the insurer to return the indemnities not received by the deceased to his heirs.

Other problems may become apparent in the future as Spain real estate financial products sold to consumers have been the object of reforming case law whose impact upon ERS has not been tested yet. For instance, the judgment of 23 December 2015 of the Supreme Court (nº 705/2015) declared that clauses that bind consumers to pay the costs of formalizing mortgage deeds are null and void. "These expenses correspond to those linked to notary, registration, management, taxation and above all tax documented legal acts. Such claim does not prescribe (even if the mortgage is canceled) and, according to this ruling, such costs must be attributed to the lender, i.e. financial institutions."

8.3.2 France

French public institutions have participated in various studies related to ERS as instruments to increase the funds available to retirees (in particular the *Agence National d'Information sur le Logement*, ANIL⁸⁰), as over 70% of retirees of over 75 years of age own their home in France. Since 2006 the legislation refers to a type of Loan Model ERS, the *prêt viager*

⁸⁰ The Agence National d'Information sur le Logement was involved through the participation of its Director Mr Vorms in the main government Jachiet-Friggit-Vorms-Taffin Report on ERS *Prêt viager hypothécaire et mobilisation de l'actif résidentiel des personnes âgées* (2004) available under http://www.minefe.gouv.fr/directions_services/dgtpe/publi/rap_viager_hypothecaire_0604.pdf. Other ANIL material on the subject includes the two following links: <http://www.anil.org/document/fichier/8496.pdf>, <http://www.anil.org/document/fichier/6693.pdf>.

hypothécaire, and incorporates measures to protect consumers that acquire such product. An ERS product is sold in France since 2007, with a major reform of the product in March 2017.⁸¹ Available data show that the average age of the borrowers is of over 75 years.⁸²

Regulator

The banking authority, the Commission Bancaire, is the authority that regulates the providers of Loan Model ERS and any other credit. If Sale Model ERS were offered commercially, the providers would also be placed under the same Regulator.

Regulation

Contract Law, Bank Law and Housing Law are all relevant to the marketing of this product in France. These texts were reformed as a result of necessary legal modifications to consumer credit law (*loi sur le crédit à la consommation*), bank law (*code monétaire et financier*), and the civil law (*code civil*).

The main reform was contained in the Ordonnance no 2006-346 of 23 March 2006 relating to Sureties. In this text, the *prêt viager hypothécaire* was defined as the contract by which a credit institution consents a loan to a physical person, which is guaranteed by a mortgage claim on a property of the borrower which is exclusively used as a place of residence, and the repayment of which can only be demanded when the borrower either dies or leaves the property vacant. The total amount to be repaid is fixed at a ceiling, which is the price of the property at either death of the contractor or sale of the housing asset. The main obstacle that the reform removed concerned the length of time for which a mortgage registration was valid. The Ordonnance also relaxed certain rigidities regarding foreclosure on a property (*main-levée*).

The consumer protection measures implement strong protection rules for the debtor. The French Code on Consumption refers to Loan Model of ERS in articles 314-1 to 314-19. In particular Articles L 314-3 and L 314-4 frame the commercial practices concerning the activity of equity release using Loan Model ERS. Article 314-3 provides that all advertising on lifetime mortgages irrespective of its form has to be true and informative (*loyale et informative*), that advertisements must mention the identity of the lender, the nature of the operation being offered, its cost and the Annual percentage rate of charge (APR), the cooling period, and other precontractual information (for more details see Reifner, 2007, Country Reports, France).⁸³ In France the consultation to notaries is compulsory and the notary must advise the client.

The consumer code also contains measures to protect the elderly as they are in a position of vulnerability. It forbids practices such as doorstep selling, cold calling or aggressive marketing strategies to elder consumers. There are other protection measures such as specific ceilings on fees imposed in case of early repayment, and empowerment to the competition authorities, the consumer protection department and the authorities against fraud to identify any insufficiencies and non-respect of information obligations towards the borrower, and to impose fines. Those controls include that if the lender does not comply with the formalities required in the presentation of the credit offer, the judge may impose

⁸¹ <https://www.boursedescredits.com/actualite-credit-foncier-lance-nouveau-pre-viager-hypothecaire-financer-besoins-seniors-2516.php>

⁸² According to figures published by Crédit Foncier in 2010, the average age of borrowers using this type of loan is 76 years. Borrowers receive on average 85,000 euros, which often allows them to finance the stay in a nursing home. The mortgage life loan is also chosen by the borrowers to obtain liquidity quickly, in order to improve their daily life in a consistent manner, without selling their assets. In 2009, Crédit Foncier granted 4,600 mortgage loans. <http://www.cbanque.com/actu/16769/pre-viager-hypothecaire-une-solution-pour-les-proprietaires-ages-en-difficulte>

⁸³ In France, a usury ceiling (interest rate cap) applies to credit, the interest rate of which must not exceed more than 30% of the average rate of transactions of the same category or type of credit. The Loan Model ERS (*prêt viager hypothécaire*) is a separate product and is in a category of its own with regards to calculation of the usury ceiling.

a partial or total loss of entitlement to interest. Also, if upon the sale of the home its value is less than the total sum of the outstanding debt, this difference will not be transferred to the beneficiaries of the inheritance (the bank will not be able to claim recourse to additional funds).

Articles 24 et 25 of Law 2015-992 of 17 August 2015 relative à la transition énergétique pour la croissance verte (about energy transition to green energy) introduced the possibility of repayment of interest (instalments) by the borrower.

Authorisations, licences

Before commencing their activities, banks and credit institutions as providers of ERS products must obtain approval from the Credit Institutions and Investment Firms Committee (*agrément du des établissements de crédit et des entreprises d'investissement*).

Intermediaries need, before being able to offer ERS, a recognised status as an IOB (*Intermédiaire en Opération de Banque*). In France, an intermediary acts by virtue of a power of attorney granted by that institution. The said power of attorney indicates the types of transactions that the intermediary is empowered to carry out, and the conditions applicable thereto.

Products

One Loan Model ERS product, defined as a *Prêt viager hypothécaire* (lifetime mortgage) has existed in France since June 2007 under the commercial name "Foncier Reversimmo" given to it by the Crédit foncier de France. It is a banking product, a direct result of legal changes made in 2006⁸⁴ and a ruling that allowed its introduction. In 2017 the standard product has been modified by lowering the minimum age of the borrower and by introducing a fix interest rate.

Foncier Reversimmo is a loan for older people where the minimum age established by the provider was of 65, and 60 years since 2017⁸⁵ (the law does not impose a minimum age). It is sometimes described as a personal loan guaranteed with a mortgage on real estate (and not strictly as a mortgage). No repayment is due until the borrower dies, although since 2015 they can repay the interest accrued on instalment bases. If, as a result of longevity or house price fluctuations the debt exceeds the value of the property, the loss is not borne by the borrower's estate but by the bank (or its insurer). This *no negative equity guarantee* for the consumer is defined by law and providers cannot choose whether or not to include it.

The first product created in 2007 disbursed the funds released from the loan to the consumer only as a one-off cash lump sum⁸⁶. Articles 24 et 25 de la loi 2015-992 du 17 août 2015 relative à la transition énergétique pour la croissance verte.

⁸⁴ The Ordonnance no 2006-346 on sureties from March 23 2006 can be found under: http://www.legifrance.gouv.fr/jopdf/jopdf/2006/0324/joe_20060324_0071_0029.pdf.

⁸⁵ This product has been reformed in 2017, see <https://www.boursedescredits.com/actualite-credit-foncier-lance-nouveau-pret-viager-hypothecaire-financer-besoins-seniors-2516.php>. The age of the borrower is now of 60 years. Other reforms include a fixed interest rate of 4,8%.

⁸⁶ The amount lent depends on the value of the asset, fixed by an expert (the expertise is invoiced at some 600 € if the owner then renounces borrowing) and the age of the borrower: for example, the latter, characteristics of its property, could borrow 61% of its value at 90 years, but obtain only 44% at 80 or only 25% at 70 years. In addition, the application fee amounts to 4% of the borrowed amount, compared with 1% on average for conventional loans. In 2010 the loan rate was 8.5% per year. Thus, a person borrowing € 50,000 will find himself indebted, according to the figures communicated by Crédit Foncier, € 104,193 after 10 years and € 155,709 after 15 years. Finally, the funds were obligatorily released at once, which is penalizing since the interest runs as soon as they are made available. However, an option for installment payments was planned for 2008. http://leparticulier.lefigaro.fr/jcms/c_41503/reversimmo-le-premier-pret-viager-hypothecaire

In France there are some limitations to the use of the *Prêt viager hypothécaire* as the home has to be used exclusively for residential purposes and must be located in France, although it does not need to be the main residence of the borrower. The property cannot be used as commercial or business premises, however the mortgagee is allowed to rent and to sell it. The borrower must maintain the property and access to inspect must be granted to the provider of the loan.⁸⁷

Commercial Sale Model ERS do not exist in France in the sense that there is no institutionalized commercial activity of the sort “sell and stay”. This alternative is exclusively conducted by private individuals. This life annuity agreement between individuals was significantly successful in the past, however, it suffers from its reputation and the number of contracts signed is in continuous decline. This “*vente en viager*” is mainly concluded between two members of the same family. The transactions do result in a *rente viagère* or lifetime annuity, which is generally transferred monthly. One respondent to the 2017 IFF Questionnaire explained that compared to the *prêt viager hypothécaire*, the private sale and lease back arrangement contains a confrontation between two physical persons which is very inconvenient in the sense that one has a financial interest in the death of the other. Also, under the Sale Model the occupant forgoes any claim on the future capital gain or appreciation in value of the home he/she no longer owns.⁸⁸

In terms of alternative products, alongside these private sale and lease back agreements, secured lending by banks based on the value of collateral does exist as confirmed by the respondent from the main banking association and has been directly encouraged by recent changes to the law on sureties. Nevertheless, the *hypothèque rechargeable* has had only little noticeable impact on the supply of these forms of second charge mortgages in France. In France, although mortgage-based treasury loans are offered by the main French banking networks, these are not widely used and are constructed within a personalized offer (*montage personnalisé*) without being defined as a ‘product’. Furthermore, jurisprudence from the Cour de Cassation does not allow a lender to extend credits using the value of the good without taking into account the repayment capacity of the client.⁸⁹

Other products existed in the past that were rather similar to normal mortgage loans although they made necessary the contracting of and insurance when the purchaser was over 60 years of age.

Providers

A provider must be authorised and be registered. Only a bank can distribute Loan Model ERS products.⁹⁰ Regular controls are exerted by the Commission Bancaire which controls French banks in all their activities.

The CFF does 100% of its business through its direct marketing channel in terms of distribution. This direct sales also includes business brought to it through other financial institutions that are part of the CFF’s bank grouping, in this case the groupe Caisse d’Epargne.

Barriers

⁸⁷ <https://www.boursedescredits.com/guide-pret-viager-hypothecaire-1754.php>

⁸⁸ Contracts for Loan Model ERS were introduced about the year 2006-2007 and they were quoted as totalling between 200 with a total value of EUR 20 million and 588 contracts worth EUR 60.7 million with more frequent clientele being women. With regards to the private sale and lease back equivalent to the Sale Model ERS, it has been suggested that this product and practice has become much less frequent over the years (Reifner 2007).

⁸⁹ See p.21 of: http://www.anil.org/fileadmin/ANIL/Etudes/2007/acces_credit_emprunteurs_atypiques.pdf.

⁹⁰ In France there is a product, the Crédit Immobilier de France with its “prêt hypothécaire cautionné” however although aimed at seniors, it is a traditional loan and it is constructed so as not to require the over 60-year-old to need to take out an insurance.

In France, restrictions of the uses of lifetime mortgages in accordance with the consumer code have been seen as barriers for the development of ERS. This together with the high cost and complexity of the schemes in a country then has shown general mistrusts in loans contributing to the underdevelopment of the ERS Loan Model.

The reforms introduced in 2017 that include a lower minimum age for the borrower, and a fixed interest rate may facilitate the sale of this product.

8.3.3 Sweden

Regulator

In Sweden, providers must obtain a license through the Swedish Financial Supervisory Authority, FSA, to offer equity release products.

Providers

Providers of Loan Model ERS must be a credit institution and be registered as a such, (Law 2004:297) chapter 1, 4th and 5th paragraphs together with chapter 2 first paragraph (Reifner et al., 2007).

Loan Model ERS in Sweden receive the name of Hypotekspension. The first provider of Loan Model ERS in Sweden, Svenska Hypotekspension, was reported in the past (Reifner et al., 2007).

The combination of low income after retirement and large housing wealth as normal mortgages are paid up when citizens reach older age, combined with international examples showing the benefit of reverse mortgage, inspired financial institutions in Sweden to introduce this product (Bergman, 2013, p 78). Nowadays, at least 5 different schemes are marketed as it is shown by Svenska Hypotekspension.⁹¹ Six Financial Institutions are reported in academic work (Setterqvist, 2013).

Svenska Hypotekspension is a Loan Model product, which has evolved and is now rather flexible (comparing with its layout in 2007). It allows for early repayments, interest rate adjustments (three monthly) and the loan, under present commercial conditions as published does not have a final predefined term. Interest rates at present are of 4.5%, or 4.66% for loans over 600,000 SEK calculated for periods of over 15 years. Interest rates are some 2.7% higher than normal mortgages interest rates (it is classified as a "non-capital" loan, *kapitalfrigöringskredit*, which is dearer in accordance with Swedish Consumer Credit Law, Konsumentkreditlagen). The product includes a representation that the loan can never be higher than the value of the property (the house must be unencumbered, and if there is a previous loan the amount of the encumbrance will reduce the amounts available from the Hypotekspension). This product is nowadays designed with a number of conditions: A fee of 5,200 SEK is paid upon completion (signature) of the reverse mortgage, and a fee of 195 SEK each on annual bases, when the provider sends an annual report to the mortgagee. Applicants to Svenska Hypotekspension must be over 60 years of age as a minimum. For couples to qualify, 60 years is the minimum age of the younger applicant within the couple. In relation with the property used as guarantee, it must be of at least 500,000 SEK in the case of flats/apartments; and a minimum of 900,000 SEK if it is a house. When the home is sold and the Hypotekspension is paid back, the interest earned during the years of the loan are deducted, as capital deficit, from the mortgagee tax declaration (capital gains)⁹².

⁹¹ <http://www.hypotekspension.se/ny-myndighetsrapport/>

⁹² See <http://www.hypotekspension.se/sa-fungerar-det/ranta-och-villkor/>; and <http://www.hypotekspension.se/app/uploads/2017/01/Faktablad-Allm%C3%A4n-info-2017.pdf>.

Institutionalised and commercialised Sale Model ERS have not been reported. It is known that private non-commercial equivalent to Sale Model products are not unusual within the family, but such arrangements on a strictly commercial basis, although not illegal, are more or less non-existent (Reifner et al., 2007). Whilst commercial Sale Model ERS are not forbidden by law in Sweden (and the provider of equity does not need to be a registered/authorised financial institution, their legal framework based in civil law is uncertain or complex, for instance, any repurchase option for the consumer must be formalised as a condition of the completion in the deed of sale of the property to be enforceable at a later time, and if such requirements are not met the option may not be valid.

Barriers

Perceptions of ERS as being risky financial products or contracts with potential hidden costs, together with culture rooted feelings of embarrassment are barriers to ERS in Sweden. Furthermore, the promotion of reverse mortgage differs between different regions in Sweden and this fact is also a barrier.

The Loan Model sold in Sweden a few years ago was defined as "*a reverse mortgage, either paid directly or in the form of ten years annual life insurance repayments*". This meant that either a consumer could get the mortgage loan as a lump sum at once or in form of a life annuity paid monthly or annually only for 10 years. Such term is very restrictive and in itself is a barrier. The old Hypotekspension® did not contain negative equity guarantee (Reifner et al., 2007). However, recent government support, greater awareness and new contractual conditions may result in reducing such barriers, particularly for the Sales Model.

In relation with Sale Model ERS, its rooting in the Swedish Code of Land Laws, *Jordabalken* introduces legal complexities that constitute barriers for further development.

8.3.4 Poland

In Poland, ERS are called *odwrócona renta hipoteczna* or *umowa dożywocia* (lifetime agreement). Until 2007 no such products were marketed or offered (Reifner et al., 2007).

Regulators

The regulator for financial service providers is the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*)

Regulation

The Polish Regulator has devoted some attention to ERS. **Loan Model** is regulated under an Act from 23 October 2014 about reverse mortgages (Ustawa z dnia 23 października 2014 r. o odwróconym kredycie hipotecznym) (Dz. U. z 2014 r. poz. 1585, z 2015 r. poz. 1844). A possible reform of this Act has been considered but it has not been entered to Parliament to date. In relation with the **Sale Model**, a Bill (UD158) was debated in Parliament with the objective of regulating life-long payments (Ustawa o dożywotnim świadczeniu pieniężnym). This Project was removed following a change of political power in Poland at the end of 2015, and taking into account that the Polish Financial Supervision Authority had expressed numerous objections to the project. It is relevant to note that a new project is being drafted for an Act on Life-long Payment/Ustawa, dożywotnim świadczeniu pieniężnym. In its present form, it follows generally the Sale Model of Equity Release Schemes, and it places the Polish Financial Supervision Authority as the responsible body for the control of the market for life-long payment services. Therefore, if this projected Act is made into Law all entities providing lifelong payments will have to obtain a licence.

Beyond the above, there are not specific ERS regulations in Contract, Tax, Housing nor in Mortgage Laws. Poland does not have a Code of Conduct, or Recommendations to guide the development and functioning of ERS.

Licences

Providers of Loan Model ERS need a licence to carry out bank business (in Poland only banks could provide contracts for reverse mortgage). Entities with a licence to act as banks do not need additional authorisations, registrations or notifications to be able to provide ERS.

At present, providers of other services similar to ERS (Sale Model) do not require a licence, although contracts are subject to notarisation. As expressed above, a new Act that is being discussed (Ustawa, dożywotnim świadczeniu pieniężnym) is expected to impose licences also on entities to provide ERS Sale Model.

Supervision and controls

There are no specific controls for ERS in Poland, although banks offering ERS would be subject to normal banking supervision by the Polish Financial Supervision Authority.

The project of an Act for Life Long Payments, if made into Law will put all ERS, including the Sale Model Schemes, under the supervision of the Polish Financial Supervision Authority.

Providers

At present banks do not provide ERS Loan Model, as the situation of the financial market is not ideal to the marketing of such products. Some entities are active in the Sale Model, such as TUŻ Europa, Fundusz Hipoteczny Dom SA, Fundusz Hipoteczny Familia.

Limits on consumers

In relation with the ERS **Loan Model**, restrictions exist on ownership, as the consumer entering into this type of model must own the property. Other restrictions imply that payments to the consumer may only have the form of lifelong annuity payments or a one-off payment. Referring to the **Sale Model**, the consumer must be the owner of the property. He or she maintains a lifelong occupancy right subject to restrictions of use (only) as a dwelling home. Payments are formally agreed before a notary.

Barriers and other difficulties

Loan Model ERS are not offered at present given a general bad situation in the financial market. Sales Model ERS, and in particular a scheme known as Save to equity ("saving & loan") does not offer enough guarantees, for instance for possible bankruptcy of the equity supplier. Also, contracts are not flexible and once entered into a contract involving a life-long payment the consumer cannot apply to withdraw from it. Cultural barriers and mistrust in financial institutions are relevant barriers for ERS to be fully developed in Poland. Such cultural reasons made that agreements similar to Sale Model ERS exist but are kept in the domestic or church spheres in the past.

Other information

Poland does not have regulation related to agreements to rent one's home (shared rent and home ownership).

In relation with a possible 4th Model such as Pension-Tenancy combining rent and savings, Polish Law gives the consumer a lifelong occupancy right.

8.3.5 Austria

Austria is a country with underdeveloped ERS.

Regulator

The competence for regulating the provision of ERS is of the Financial Market Authority, in so much as the ERS contemplated in this report are provided by Credit or Financial Institutions.

Regulation

Reverse mortgages or *Umkehrhypotheken* are excluded from the scope of the transposition of the MCD into Austrian Law on Mortgage and Consumer Credit Laws (Bundesgesetz über

Hypothekar- und Immobilienkreditverträge und sonstige Kreditierungen zu Gunsten von Verbrauchern (Hypothekar- und Immobilienkreditgesetz – HIKrG). Furthermore, there are no national laws (Contract, Housing, Banking, Tax) specifically addressing this type of financial products. Austria does not have a Code of Conduct for ERS.

Notwithstanding the lack of regulation, ERS are not prohibited by law, and it is possible to conclude a contract concerning a *Leibrente* (§§ 1284 – 1286 ABGB) or to raise a loan (*Darlehen*) (Reifner et al., 2007).

Licences

Providers either of the ERS Loan Model or the ERS Sales Model as they have been defined in this study require a bank license as in Austria loan transactions are subject to licence requirements pursuant to the Federal Law on Banking (Banking Act - Bankwesengesetz - BWG). Intermediaries require a Business Licence to act as such intermediaries.

Supervision and Controls

No specific controls are in place for ERS in Austria. Supervision of ERS follows the same procedures as supervision for other financial products and services. In this country controls over financial and credit institutions are mainly carried out through on-site inspection.

Barriers

Austria is a Country with below EU average levels of home ownership, therefore ERS are not a suitable product for a relevant part of its population.

Also Austrian pensions are among the highest in the OECD, therefore, the need to supplement retirement income may not be as strong as in other jurisdictions.

Cultural reasons including conservative attitudes towards loans and the custom to leave a bequest after one's death have been pointed as reasons for such lack of development (Reifner et al., 2007).

8.3.6 Malta

In Malta, the number of ERS related loans and the total amount involved appear to be still rather insignificant when compared to these banks' credit portfolios.

Regulator

The Malta Financial Services Authority (*MFSA*) is the regulatory authority for all financial services in Malta.

Regulation

Malta Credit Agreements Regulations transposing the MCD excludes equity release schemes from its scope as stated in Regulation 3(2): These regulations shall not apply to: (a) equity release credit agreements where the creditor: (i) contributes a lump sum, periodic payments or other forms of credit disbursement in return for a sum deriving from the future sale of a residential immovable property or a right relating to residential immovable property; and (ii) will not seek repayment of the credit until the occurrence of one or more specified life events of the consumer as may be defined by the competent authorities, unless the consumer breaches his contractual obligations which allows the creditor to terminate the credit agreement Malta has not passed any Laws (Taxation, Contract, Banking, Housing) that specifically regulate ERS. Also, it has not a Specific Code or Conduct for ERS.

Licences

Providers of credit products must be authorised as credit institutions or as financial institutions as required by the *Malta Banking Act* (Cap. 371) and *Malta Financial Institutions Act* (cap. 376), however, there is no special licencing procedure for ERS providers but they are subject to the general authorisation as credit or financial institutions.

Supervision and Control

Whilst no specific controls are exercised by the MFSA with respect to ERS, any ERS providers in Malta are subject to both on-site and off-site supervision related to the bank's or financial institution's credit risk in its asset portfolio.

Providers

HSBC Malta Bank plc - one of the two main banks in Malta provides some level of ERS, through direct sales. In accordance with information received from experts, intermediaries do not seem to be active in the marketing of these products.

HSBC offers a product named Home Owner Loan specifically oriented to "good customers of the bank" that must have a relationship with the bank of at least six months and comply with other requirements⁹³. These loans can be used for most purposes (except for business uses), they are subject to a satisfactory credit assessment and to general norms of prudent banking (for instance homeowner loans cannot be used as a vehicle to clear loan repayment arrears or past due bills or refinancing, when they are contracted for periods over 20 years they should not be used to fund daily needs. Home Owner Loans are to be secured by a first General Mortgage and Special Mortgage over customers' main residence, or an untenanted residence in customers' name. Subsequent Home Owner Loans can be secured by a charge over the same property, but two or more properties cannot be used to secure a single Home Owner Loan.

The minimum amount for Home Owner Loans is €7,000 with a minimum term of 5 years. They are granted in accordance with a credit ranking on the customer on a scale from 1 to 9 following the term "CRR1-5", an internal credit rating. Subject to loan to valuation of 80% for properties valued up to €1,200,000 and 70% if property is valued over €1,200,000. There is no maximum amount.

Drawings will be affected at bank branch after the deed of loan has been signed. The amount borrowed will henceforth be credited to the customers' account on the date the loan deed is signed, unless the customer instructs otherwise. There may be instances where customers request not to transfer the full balance on the deed of loan. These requests should only be approved in exceptional cases. The maximum drawdown period (i.e. the time to draw the loan from date of sanction letter) is three months."

Barriers

The fact that Malta does not have specific data available on ERS and that there are no regulatory/prudential reporting schedules which have been specifically tailored for the reporting of such products has been suggested by one expert as a barrier that precludes widespread development of ERS in this country.

8.3.7 Portugal

Portugal has a relatively high rate of owner-occupation for cultural reasons and due to a historical scarcity of alternative investments.

Regulator

Banco de Portugal – Banking Conduct Supervision Department

Regulation

Portugal does not have a specific legal framework applicable to the provision of ERS. In the case that financial institutions were to enter this market they would be subject to

⁹³ Details of the Home Owner Loan are as follows: "Home Owner Loans are available to good customers of the bank: Who are established customers (i.e. more than 6 months relationship), with no negative features on their accounts (i.e. CRR1-5 or ungraded); Who reside in Malta and have residential property in Malta; Who do not reside in Malta, but have a home loan with the bank on a Maltese property."

prudential and banking conduct supervisory requirements generally applicable to the activity of credit institutions and financial companies⁹⁴.

The Portuguese Decree-Law nr. 74-A/2017, of 23rd June⁹⁵, which transposes into national law the MCD, excludes from its scope ERS, in the exact same sense that they are defined in the MCD itself, i.e., equity release credit agreements where the creditor: a) disburses lump-sum or regular payments in return for an amount derived from the future sale of the residential property/related right, and b) does not seek for repayment until the occurrence of specific consumer's life events (except for the creditor's ability to early terminate them). Loan model ERS is referred to in Decree-Law nr. 74-A/2017 only as an exclusion (This Law will enter into force on 1st January 2018).

Licences

There is no specific legal framework regarding Sales Model or Loan Model equity release schemes, notwithstanding the supervision of Bank of Portugal and the compliance of general credit legislation in the case of financial or credit institutions. In relation with intermediaries Decree-Law nr. 81-C/2017, of 7th July sets the requirements for the establishment and supervision of all credit intermediaries. These requirements apply also to the intermediation of consumer credit agreements excluded from the Decree- Law nr. 74-A/2017, of 23rd June (which transposes the MCD).

Providers

According to the Legal Framework of credit institutions and financial companies, only credit institutions and some financial companies would be able to sell these products. However, in accordance with the regulator, Banco de Portugal, Loan Model ERS (according to the MCD definition) is not provided at present in this country.

In accordance with experts, there are no legal barriers hindering the existence of Sale Model ERS as 'private home reversions' among individuals (Reifner et al., 2007). However, given the rules and prudential limits applicable to credit institutions and financial companies, commercial Sales Model ERS will not be possible at present in Portugal (in accordance with the Regulator, Banco de Portugal answers to IFF 2017 survey).

Barriers

Impact of ERS on the bequest of the borrower, cultural and sociological reasons are the main obstacle to an ERS market (Reifner et al., 2007).

As far as Loan Model ERS are concerned, the existence of certain legal uncertainties, such as successor's rights and to creditors' ranking claims in case of bankruptcy of the equity provider have been pointed by experts as likely reasons for the lack of demand and/or

⁹⁴ The Legal Framework of Credit Institutions and Financial Companies is enacted in Decree-Law No 298/92 of 31 December 1992, and amended by Decree-Laws Nos 246/95 of 14 September 1995, 232/96 of 5 December 1996, 222/99 of 22 June 1999, 250/2000 of 13 October 2000, 285/2001 of 3 November 2001, 201/2002 of 26 September 2002, 319/2002 of 28 December 2002, 252/2003 of 17 October 2003, 145/2006 of 31 July 2006, 104/2007 of 3 April 2007, 357-A/2007 of 31 October 2007, 1/2008 of 3 January 2008, 126/2008 of 21 July 2008 and 211-A/2008 of 3 November 2008, Law No 28/2009 of 19 June 2009, Decree-Law No 162/2009 of 20 July 2009, Law No 94/2009 of 1 September 2009, Decree-Laws Nos 317/2009 of 30 October 2009, 52/2010 of 26 May 2010 and 71/2010 of 18 June 2010, Law No 36/2010 of 2 September 2010, Decree-Law No 140-A/2010 of 30 December 2010, Law No 46/2011 of 24 June 2011, Decree-Laws Nos 88/2011 of 20 July 2011, 119/2011 of 26 December 2011, 31-A/2012 of 10 February 2012 and 242/2012 of 7 November 2012, Law No 64/2012 of 24 December 2012, Decree-Laws Nos 18/2013 of 6 February 2013, 63-A/2013 of 10 May 2013, 114-A/2014 of 1 August 2014, 114-B/2014 of 4 August 2014 and 157/2014 of 24 October 2014, Laws Nos 16/2015 of 24 February 2015, 23-A/2015 of 26 March 2015, Decree-Law No 89/2015 of 29 May 2015, Law No 66/2015 of 6 July 2015, Decree-Law No 140/2015 of 31 July 2015, Law No 118/2015 of 31 August 2015, Decree-Laws Nos 190/2015 of 10 September 2015 and 20/2016 of 20 April 2016 and by Law No 16/2017 of 3 May 2017 and 30/2017 of 30 May 2017. An English version available at https://www.bportugal.pt/sites/default/files/anexos/legislacoes/rqicsf_en.pdf.

⁹⁵ https://www.bportugal.pt/sites/default/files/anexos/legislacoes/269363864_1.doc.pdf (available in Portuguese only).

incentives by banks and other credit institutions. Furthermore, as stated above, the regulator considers that the provision of Sales Model ERS is not feasible for financial and credit Institutions under the present prudential regulatory and legal system.

8.3.8 Czech Republic

The Czech regulator has expressly warned that ERS may be risky financial products (referring, in our opinion to Sale Model⁹⁶).

Regulator

Czech National Bank (CNB)

Regulation

Provision of ERS in this country is subject to Banking regulations, Consumer Credit Act and Insurance Act No. 277/2009 Coll. – implementing Solvency II Directive (for ERS products that include an insurance product). However, there is no specific legislation related to ERS.

In principle, national legislation transposing MCD applies to all type of credit agreements, including to ESR. National legislation does not except ESR as MCD does. Therefore, pre-contractual advice and information should be offered according to MCD.

Authorisation and Licences

Loan Model ERS are treated as consumer credit products in accordance with the Czech Ministry of Finance, and in accordance with such classification both providers and intermediaries must be authorised by the Czech National Bank under the Consumer Credit Act. Furthermore, authorised entities and persons are then recorded in the Czech National Bank's register.

Banks are subject to normal banking authorisations. And providers (other than banks) are allowed to grant loans (including Loan Model ERS) only after entering the National Bank of the Czech Republic's registers by following a procedure akin to licensing. The legal framework is represented by Title I of the Government Ordinance no.28/2006 governing certain financial and fiscal measures, approved with completions and alterations by Law no.266/2006 (presented in annex).

The Consumer Credit Act requires every consumer credit intermediary to be authorised by CNB and must meet the correspondent qualification and good-repute requirements.

In relation with Sale Model ERS the preferred choice by consumers seems to be to receive a one-off settlement instead of uncertain rent. However, if Sale-insurance ERS with annuities was to be offered, it would be subject to the corresponding "solvency law" (Insurance Act No. 277/2009 Coll. – implementing Solvency II Directive), and thus providers would need to be authorised.

Providers

In accordance with the Ministry of Finance, which is the body responsible for the financial services policies in the Czech Republic, there are schemes sold in the Czech Republic in order to finance consumption after retirement that can have form of a non-purpose loan secured by real estate, repaid by regular payments and keeping consumer's ownership (American mortgage). This is reported as being current banking, however, such description is relevant also for second mortgages.

One of the providers which offers Loan Model ERS since 2015 is FINEMO CZ (the first provider). This company was transformed to comply with new Consumer Laws, it aligned its procedures according to Consumer loans law, adopted the form of SE and it is undergoing licensing procedure with CNB.

⁹⁶ "The CNB considers reverse mortgages to be a risky product. However, the level of risk depends on the specific reverse mortgage model and on the specific way in which the reverse mortgage is offered. It should also be noted that the provision of reverse mortgages is not currently subject to CNB supervision. (CNB, 2016)

FINEMO CZ's ERS product is a reverse mortgage product named *Renta z nemovitosti*. It is offered to individuals over 60 years of age that can continue living in their property. The rent obtained in exchange for this reverse mortgage type of product can be paid in one lump sum, in monthly instalments, or as a combination of both methods. Under the standard terms of *Renta z nemovitosti*, the mortgagee can continue living in the property, is responsible for maintenance and must buy a real estate insurance. It is possible for the mortgagee to cancel the reverse mortgage, but normally it will be for his or her heirs to settle the loan with the provider: The house or apartment is transferred to the heir upon the death of the owner, and it is for them to either repay the loan from their own funds and / or sell the house or apartment, or (pay the loan and retain the remaining part of the proceeds. One of the features of this product is that (as it is marketed⁹⁷) the debts accruing on the loan can never exceed the value of the property.

At present, Sale Model ERS linked with insurance are not sold in the Czech Republic.

Controls

No specific controls for ERS products are reported, although Loan Model providers and intermediaries are subject to banking and consumer regulations. Sale Model ERS are not subject to CNB supervision but if they are sold with an insurance product, then insurance control regulations would apply (CNB, 2016 p 42).

Barriers

The NCB has published that in Sale Model ERS, in the event of deferred gradual payments, the seller bears an increased risk that the full price of property will not be covered, in particular if the reverse mortgage provider goes bankrupt. The risk of losing both the property and the life annuity is relevant and for this reason, the CNB considers reverse mortgages to be a risky product (although the level of risk depends on the specific reverse mortgage model and on the specific way in which the reverse mortgage is offered)(CNB, 2016). It should also be noted that the provision of reverse mortgages is not currently subject to CNB supervision.

8.3.9 Romania

Romania is the country, within the EU, with higher rate of home ownership (over 96%)⁹⁸. This market has some experience with Commercial Sale Model ERS, for a very short period of time. It has been described that the typical Romanian pensioner choice is to live in its home for the rest of his or her life (Reifner et al., 2007). The Romanian financial services sector is developing slowly. Until recently there were no ERS in this country, and there were no other products common in many jurisdictions such as secondary mortgage loans (*ipoteca de rangul II*) (Reifner et al., 2007)⁹⁹. However, its National Association of Financial Companies (*Asociatia Societatilor Financiare*) has been very active in the promotion of good financial practices and responsible credit practices¹⁰⁰, which in our view may lead to improving levels of development of financial products for consumers.

Regulator

National Bank of Romania. This Authority is also the Romanian National Competent Authority for the Protection of Consumers.

⁹⁷ Web page at <http://rentaznemovitosti.cz/#onas>

⁹⁸ 96,1% in 2014, according to the study carried out in 2015 by EUROSTAT. As reported here: <https://www.agerpres.ro/economie/2015/11/23/romania-tara-cu-cei-mai-multi-proprietari-de-locuinte-din-ue-96-1-in-2014-12-55-59>

⁹⁹ From the site of BNR www.bnr.ro and of the credit institutions and of the non-banking financial institutions registered in the registers of BNR.(2007).

¹⁰⁰ http://www.alb-romania.ro/Documents/cod_de%20conduita.pdf

Regulation

Directive 2014/17/UE of the European Parliament and Council on mortgage credit was transposed in Romania through emergency ordinance no.52 of 14 September 2016, published in the Off. Gazette, Part I, no.727 of 20 September 2016, which entered into force on 30 September 2016.

The scope of the emergency ordinance no.52/2016 is provided in its article 2 and it includes all the consumer credit contracts concerning the sale or purchase of assets, mortgage credit contracts and credit contracts that involve a right secured to an immovable property. The ordinance does not apply to the credit contracts provided in art.3, paragraph 2, letter b, c and d; or art.3, para.3, letter c of the Mortgage Credit Directive and does not contain any further provision regarding ERS. It also excludes from its scope the contract of collective saving for residential purposes.

Licences

Credit institutions and non-banking financial institutions under the authority and the supervision of the Romanian National Bank could offer ERS but they are not offered at present.

Providers

The only provider that in the past offered ERS products on the Romanian market was HILD ASSET SA. It entered the Romanian market in 2008 and ceased its activity in 2009.

In relation with schemes similar to Sales Model ERS experts explain that the only legal mechanism that is close to ERS and is provided in Romania is the Life Annuity Contract (contract of *renta viagera* in Romanian). This contract is regulated by articles 2242 to 2253 of the Romanian Civil Code in force since 1 October 2011. The Life Annuity Contract is defined as being the "*convention through which a party called the payer of the annuity undertakes to pay annuities to a person called annuitant, in the form of money or other fungible assets*". Life annuity is a synalagmatic consensual and duration contract that can be signed as an onerous agreement or free of charge. When it is signed against a price it transfers the property in exchange for an annuity¹⁰¹.

Another product similar to the Sale Model ERS that exists, namely sale and lease back products for corporations, is offered in Romania by professional providers, leasing companies, but they offer the product exclusively in connection with corporate bodies, for example industrial equipment. Therefore, this product is not offered to extract liquidity from the consumer's home (Reifner et al., 2007) and thus is outside the scope of this study¹⁰².

Barriers

The National Bank of Romania has reported that Romanian national legislation on granting loans to households imposes upon the creditor a number of obligations that may hinder the commercial development of ERS. In particular the National Bank of Romania mentioned as providers' duties (and barriers to further development of ERS markets): Assessing the creditworthiness of the client, considering the level of income at the time the credit application is made as well as the client's income history and any variability over time, his or her level of expenses and other financial circumstances. Furthermore, when assessing the consumer's creditworthiness, creditors shall rely predominantly on the consumer's

¹⁰¹ Urs Ilie, 2015, Drept civil. Contractele speciale, Universul Juridic Publishing House, Bucharest, p.352-368

¹⁰² From the site of the Association of the Financial Societies from Romania, www.alb-leasing.ro and of their members; and site of the Association of the Leasing Societies from Romania www.asrl.ro, member of Leaseurope.(2007)

capacity to generate incomes for the purpose of credit reimbursement and only secondary on the value of the guarantee.¹⁰³

Other barriers refer to the general credit regulations panorama, as referred to by National Bank of Romania, such as maximum maturity of a consumer credit (it cannot exceed 5 years), with the exceptions of credits secured by a real estate mortgage and granted for the acquisition or renovation of a real estate. Such references may be interpreted as a lack of credit culture in Romanian financial institutions.

Furthermore, the wish to maintain life-long expectancy of own home occupation may be a deterrent for ERS in a country whose financial services sector develops slowly.

8.3.10 Estonia

Estonia is a country with above EU average level of home ownership. However, no ERS or similar schemes are provided in this country.

Regulator

The Financial Supervisory Authority is the competent body to grant authorisations in the financial sector. In accordance with Estonian general mortgage law, potential providers of both Sale model and Loan model ERS would need to be authorised as a credit institution or as consumer credit providers. Also, intermediaries wishing to sell either ERS products would require an authorisation from the Financial Supervisory Authority.

Regulation

This country does not have special regulation for ERS, therefore there is not a legal definition for ERS in Estonia, and no specific provisions are contemplated in Tax, Contract, Banking, Housing nor Mortgage Laws. This jurisdiction does not have specific Codes of Conduct for ERS.

Supervision and controls

Potential providers and /or intermediaries of ERS would be subject to general supervision requirements as either a credit institution or as a consumer credit provider.

Barriers

Whilst there are no specific barriers to ERS (i.e., there is no prohibition to stop ERS), there may be non-specific regulations that hinder ERS. In practice, no ERS is provided in Estonia and no similar or equivalent schemes are reported for this country. However, in accordance with Estonian Ministry of Finance (an authority that is not a regulator), there are no specific restrictions to ERS and, if ERS were to be provided, under their present regulatory regime, general mortgage credit regulation would apply.

8.3.11 Slovakia

In 2016 the National Bank of Slovakia analysed together with other competent authorities the options to introduce ERS in this country, as a part of an active aging plan. The result of this analysis was that there was a low market potential in this area. In particular there was no demand for ERS products.

Regulator

The National Bank of Slovakia, as a financial market regulator and supervisor, does not regulate or control these products because we have no legislative adjustment for them.

Regulation

¹⁰³ Such obligations reflect standard duties under MIFIDII, which would make them less specific for this jurisdiction. They also reflect Romania's own code of responsible credit.

Slovakia does not have a specific regulation for ERS. As there is no demand in this country, financial regulations have not been adjusted to this product.

Licences

Given their characterisation as financial products, potential providers must hold a licence to act as such, but no specific licence for ERS. In relation with the Sales Model, Civil Law could be used to achieve its aims, as in Slovakia real estate can be sold with a registered right to use it for life.

8.3.12 Cyprus

Cyprus delayed the transposition of MOD into national law and was threatened with action by the EU Commission.

The Central Bank of Cyprus reports that there are no offerings of ERS in Cyprus. However, in accordance with the same source, should Sale Model or Loan Model ERS be offered in Cyprus, providers would be subject to financial and credit institutions' regulatory and supervision controls.

8.4 Summary of legal and regulatory situation concerning ERS

8.4.1 Barriers for the consolidation of ERS in EU Member States and on a cross border level

Among the problematic areas for ERS as such, and also for the cross-border marketing of such products the following were identified in the past, and also as a result of this project:

- **Tax law**, as the actual release of equity is generally subject to taxation and as stamp duties and notary fees can be so significant that they make such schemes too costly for consumers and providers. The impact of taxation is also linked to the complexity of some ERS, such as those that include a mortgage credit with rent-insurance policies, because even if some Member States (like Spain) offer tax exemptions to income received from the mortgage product, such exemption is not extended to income from insurance policies (CERMI, 2013). The marketing of such a hybrid is complex in terms of explanations to consumers to clarify that some rents are exempted from personal income taxation, but others (normally rents perceived at a later stage when interest has consumed all available equity in the house due to longevity) are not exempted.
- **Banking supervision law**, which has not yet been fully harmonised. In some countries, a banking licence is required, with the result that all Loan Model ERS are subject to the full supervisory regime, and they are subject to banking law (for instance Austria, France, Germany, Greece, Portugal, and Slovakia). In other countries banking or credit institution licence is only obligatory for ERS that comply with one type of ERS (that is linked to some tax incentives, as it is the case in Spain).
- **Mortgage law and Real Estate Property laws**, as ERS are excluded from the scope of the MCD, they remain in a non-harmonised area of the law. The European Mortgage Federation stated in the past¹⁰⁴ that differences between Member States' national legislation in terms of constitution of the mortgage (in Loan Model ERS) were not the main difficulty, but they saw the lack of transparency in land registration systems and the uncertainty associated with enforceability of mortgages in different jurisdictions as main barriers for cross border marketing of ERS.

¹⁰⁴ European Mortgage Federation (2007a). The study covered the legislation of 16 of the EU27 countries and assessed the extent of collateral differences between the Member States' legislation and their possible impact on the mortgage sector.

- **Limits on the use of the proceeds of Loan Model ERS.** In some countries (like France) several specific provisions restrict certain uses of the lifetime mortgage and impose obligations on both parties. Firstly, in terms of the use to which the funds must be applied (lifetime mortgage receipts cannot be used to finance a business activity in many products that are marketed as a consequence of regulation in countries such as France). Also, the use made of the home remains within the responsibility of the mortgagee (for instance in France, according to article L314-8 of the consumer code, *"the borrower must bring to the mortgaged property all the care and attention of a good pater familias"*).
- **Valuation of the property and of the risks.** ERS involve from the perspective of the providers both systemic risks such as depreciation of real estate, and individual risks such as difficulties in calculating longevity. As a result, ERS price can be high and the possibility of realizing equity can be below by comparison to the investment in the purchase of the house. Such phenomena have been described as *"house rich bank poor"* and it can represent a barrier for the widespread acquisition of ERS.
- **Transparency and responsible lending law.** ERS are complex products and it is not clear whether consumers are made specifically aware of such complexities. While in general terms the reversal of the conventional mortgage does not significantly change the form and contents of the requisite information in order to enable adequate choice, some duties need adaptation. Specially where the legislator forbids excessive lending and requires restrictions on the amount of credit available, responsible lending principles should be interpreted differently in ERS, where the borrower does not repay the loan from his or her regular income. At the same time, the target group for the information in general credit laws may be too narrow to be effective. ERS contracts affect the family and heirs of the contractor and must be taken into account.
- **Anatocism.** Loan Model ERS share this problem with all mortgage loans. This has particular significance for ERS where, as is the case in Germany and Austria, the nearly exclusively used form of a mortgage, the *Grundschuld*, provides for an independent second claim not linked to the size of the outstanding debt of the loan by law but only by contract which at least theoretically allows to trade it separately.
- **Insolvency and bankruptcy law.** The insolvency of the provider will directly affect the intended pension. In addition, detached mortgage systems may even lead to sale of the home at auction without the consumer having received the sum borrowed and secured against it. In Member States where non-banks are active and are not part of any collective insolvency protection scheme, the risk to the retirement pension is relevant and may discourage consumers from entrusting their home to a bank.
- **Repossessions upon the death of the borrower.** Most ERS products (especially Loan Model ERS) as they are known at present allow for heirs to pay the provider and obtain full ownership of the house. However, as ERS interest accrual is high, it is likely that most properties will pass to the loan providers. This is certainly the case in Sale Model - Home Reversion ERS. If ERS become a generalist product, providers will find themselves owning and having to manage real state, an activity for which they are not always equipped.
- **Other risks and insurance law.** Some countries require an additional insurance licence for Sale Model ERS since annuities are seen as payments under uncertainty. This is often complied with the split of ERS into two products, the loan and the annuity, and the ERS product is then sold in collaboration with an insurance company. On the other hand, in Sale Model ERS sold privately the lack of regulation of insurance laws create risks for the person receiving the annuity (for instance risks related to negative equity) and also for the provider (such as risks related to longevity of the retiree).

8.4.2 Perspectives/ recommendations

The revision of different experiences in a number of jurisdictions makes it possible to extract conclusions and to provide initial recommendations for a better operation of ERS at EU level, and at EU cross border level.

The lack of statistics over extended periods of time or appertaining to a large number of transactions makes it difficult to provide for a forecast regarding the future of ERS. However, some answers to our questionnaire (i.e.: France's Agence nationale pour l'information sur le logement) together with the growing debates about public pension schemes being insufficient to provide living income to the elderly (particularly when the "baby boom") reaches retirement, allow us to advance some ideas whose implementation is recommended by 2020, as baby boomers massively reach the age of retirement whilst owning real state. ERS may represent a real solution to supplement the public and private pensions of elderly.

To overcome the main difficulties of ERS a number of elements could be incorporated into the design of ERS products, its marketing and sale. As subsidies and taxation have been used in some countries but do not seem to be effective we reach the conclusion that, whatever the model, type or subtype a possible approach to design a future product could be based on the division of risks that exist in ERS products. Providers, be placed under supervision and in a position to bear at least two main risks: the assessment of the situation of the person that is contracting (and of the beneficiaries), as well as the risks linked to the value of the property. Other systemic risks such a demography or real estate general depreciation (i.e., general drops in the price of housing that force lenders to make considerable provisions) could be beard by public instruments or institutions, at least in relation with ERS for the less wealthy sectors of society (and less valuable homes).

- 1) Creation of ERS loan products with a public sector authority backing. This could be created around public-private partnerships in different fields. Such State participations could be linked to support ERS income of pensioners with lower pension income ("social ERS"). Its scope ought to cover at least the following:
 - a. Independent valuation of property on pre-contractual bases
 - b. Independent assessment to the contractor/borrower
 - c. Maintenance of properties to avoid undue depreciation
 - d. Case by case decision in relation with the use of proceeds from ERS to ensure that they are used to increase income to pensioners, but allowing for some non-residential use of the property if this will improve quality of life of the borrower and beneficiaries
 - e. Collaboration with specialized private and public institutions for the caring of the elderly and disabled
 - f. Life-long ERS
 - g. Rent insurance to provide specifically for the risks of longevity
 - h. Bankruptcy insurance to guarantee the perception of the long life rents by borrowers
 - i. Information rights of the borrower at least to the level of non-social ERS
- 2) For ERS that fall outside the "social ERS" concept
 - a. Explicit and EU level regulation of information rights of the borrower as in normal mortgage products (adapted to the specific characteristics of ERS)
 - b. Providers of ERS, including providers of life annuities as a result of a Sale Model ERS be placed under Regulation and Supervision for Financial services supervisor
 - c. Guarantees by way of insurance or by other means to ensure that loans are paid for the period contracted, included for the life of the borrower and its beneficiaries under the ERS contract (though the value of state involvement through the bearing of risks by tax payers is not obvious)
- 3) Specific provisions to deal with the situations that rise upon the death of the contractor, both for Social ERS and for the rest
 - a. State supervised thorough regulation:

- i. Analysis (and case by case decision) in relation with spouses, dependent and other persons that may live in the property
 - ii. Incorporation of a mortgage-loan product for the voluntary acquisition of equity into the property in the case that descendants or heirs wish to maintain its property
- b. Public-private creation of a network of properties which would be repossessed by banks or by the State, to provide for housing solutions for future generations.

9 Product development

9.1 Introduction

This chapter addresses a range of proposals which could provide a framework for product offerings by financial services suppliers to individuals and households, accompanied by suitable fiscal intervention and appropriate regulation. The proposals draw on existing experience in equity release and housing markets, having regard to the policy goal of increasing the rate and penetration of pension accumulation during the population's working age intervals, and the subsequent release of funds as income for consumption in retirement. Priority is given to devising new approaches which could improve the household value proposition, at the core of which is obtaining a residence and having adequate cash in retirement, released from pension assets, one of which is a household's main residence. Three of the models discussed have been subjected to a preliminary quantitative assessment to explore the relationships between the constituent product variables and to form some judgements regarding their efficacy, sensitivity, limitations and feasibility. The necessity and desirability of further similar work will be determined by the desire of stakeholders to pursue solutions along the lines set out below.

Earlier chapters have demonstrated that many members of society across the European Union who enjoy modest incomes have not and will not be in a position simultaneously to save for retirement and buy their residences using mortgage finance. This is the situation even in a historically low interest rate environment and growing incomes. Secondly, there is also a sizeable segment of the population who currently have, or shortly will have, absolute ownership of their main or sole residence. A portion of this group is also faced with the position that they do not hold significant invested assets or cash which they could combine with a pension from other sources (personal, state or occupational pensions). These individuals therefore entertain the idea of releasing household equity to augment their income in retirement. At present there is evidence that such household financial decisions have been taken on a material scale in the UK and on a lesser scale in Sweden, Ireland, and Hungary. Each market has had its own idiosyncrasies, but the UK market is the most advanced in terms of scale, infrastructure, consumer awareness and protection, and regulatory supervision. Other markets were severely affected by the financial crisis and its aftermath.

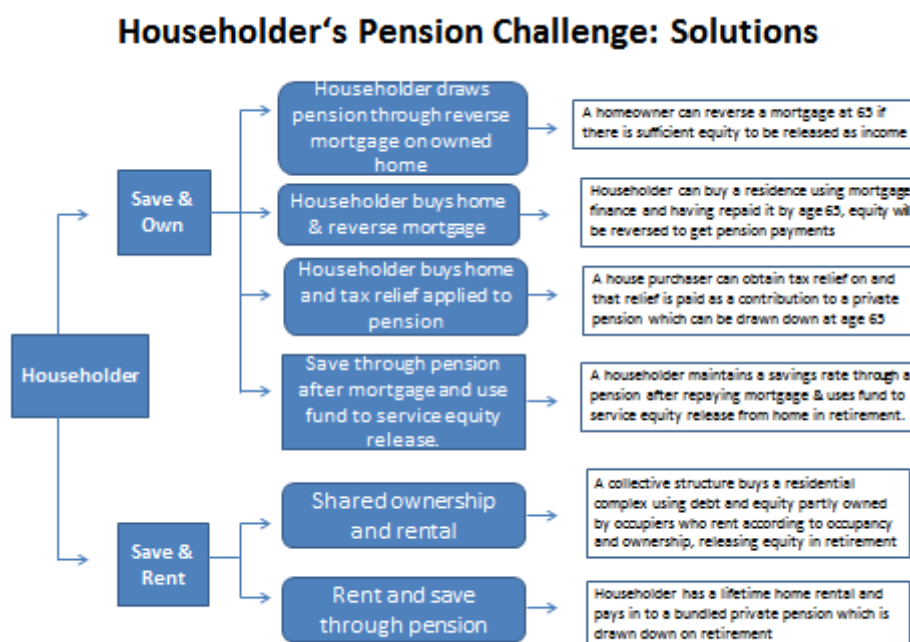
Effective product concept development requires market actors to take into account attitudes from both the supply side: financial institutions and financial advisers, and from the demand side: ordinary consumers and pensioners and consumer protection organisations. Regulators have a seat on both sides as they license suppliers, uphold the solvency of suppliers, supervise the fitness and probity of those governing and managing suppliers, oversee their conduct of business, promote and oversee standards in the operation of pension schemes. They also have roles with respect to competition and the provision of information to consumers to correct asymmetries that exist in financial markets. They may undertake these roles through a variety of agencies with varying degrees of autonomy and levels of resources that match these responsibilities.

There are also agencies who adjudicate regarding complaints and of course there are dispute resolution mechanisms involving the court system, domestically and extending to the European Court of Justice.

Conceptually, homeownership and a private pension for old age could be achieved by many. During a working life savings from income towards the old-age may be converted to housing and investment equity, and on retirement this process could be reversed: the accumulated savings and related capital returns could be converted to income. There have been numerous attempts world-wide to harmonise both systems, but in practice they have not been very popular. Thus the current project has sought to develop models in which the shelter and stability of a home are combined with additional financial provision in old age for consumption purposes.

The models fall into two groups. The first group provides legal property and tries to use credit in order to initiate the necessary liquidity for the savings process and the later payment of supplementary retirement income. The second group replaces individual property by other legal forms like a life long lease and strong property rights throughout a lifetime. Using this perspective the proposed solutions may be presented in these terms in Figure 22.

Figure 22: Householder's pension challenge and possible solutions



We explore these product pathways to provide potential solution beyond the existing ERS products that currently are marketed in the EU. Product possibilities are described in the abstract since providers are the ones that will best be able to consider these and to incorporate them within their business propositions and product portfolios

For providers, it is a big decision to market such products (see sections 7.5 Risks for providers). Providers have a portfolio of products. The appetite to offer ERS and add this to their product offerings to a specific target group of consumers is dependent on a number of business factors. The reputational risk of offering a product to a potentially vulnerable group such as the elderly can play a large deterrent role especially relative to the commercial revenue generation and profit that this market can provide (see Chapter 4 Market conditions where market potential is described).

9.2 Outline of solutions

The range of solutions speak to issues of ownership, tenure, guarantees, collectivism and individuality, age, subsidy, and contract duration. The proposals also may be viewed in terms of their suitability in urban settlements, as apartment living is more common in larger cities than in smaller settlements or rural areas. With growing urbanisation occurring in Europe over many decades, and indeed several centuries, the pattern of residential development has become an increasingly collective phenomenon. Hence some proposals reflect this collective dimension and one might anticipate that innovation with respect to new apartment complexes in urban settlements may be considered desirable in order to offer both suppliers of capital and residents an outcome that is financially and socially acceptable. Table 61 summarises some of the choices that exist with respect to proposed solutions.

Table 61: Product proposal key variables and possibilities

Product variable	Potential status	Potential Status
Ownership	By the householder	By an institution or body corporate
Tenure	Tenancy	Owner occupancy
Guarantees	Provided by a financial institution	Provided by the State using market mechanisms
Collectivist or Individualist	With others in a community or shared residential setting	By reference to an individual property owned by an individual or couple
Age	At household formation stage, typically 25-35 years of age	Approaching, at, or after Normal Retirement Age, Typically: 55 -70 years.
Subsidy	None provided	Household payments obtain fiscal reliefs (e.g. interest, rent, pension contribution)
Duration	From initial occupancy to ceasing occupation late in life (0-70 years in duration)	From contract date in retirement to ceasing occupation late in life (0-30 years in duration)

Possibilities exist between the ends of the spectrum shown for each variable, and these serve to highlight policy choices which exist and that matter to stakeholders.

In considering proposals, it was deemed desirable that options be developed across the age cohorts of the active population in the workforce. This provides policymakers with a basis for deliberation with respect to policy for retirement income enhancement over different planning horizons affecting the age cohorts and their distribution in the population. Because of the long-term nature of pension provision, additional novel possibilities arise within longer timeframes. These possibilities are summarised in

Table 62 below. This table positions the solutions with respect to the population age cohorts and also by reference to a refinement and implementation development lifecycle that would apply to them. Policymakers need to time to study, parse, refine, validate and screen solutions before converting them into adoptable pathways.

Table 62: Solution proposals and their alignment with population age cohorts

Age Cohorts in reverse age order		
58 years – 75 years (Home Equity Release)	45 years – 55 years (Mortgage repaid in full)	25 years – 35 years (Family Formation)
A. Home Equity Release with debt linked to housing prices	B. Savings for Servicing Home Equity Release	C. Lifetime tenancy

		D. Lifetime home purchase & home equity release
		E. Shared unitised home purchase & home equity release
		F. Home purchase with tax relief allocated to a pension

The ages shown are indicative of the cohorts that the solutions relate to and should not be seen as absolute limits. For example, family/couple formation may occur later or earlier, while the completion of mortgage repayments could similarly occur at later ages than those shown

Graphical representations of these proposals are also set out below. These solutions are examined by analysing the issues addressed, their design, the benefit proposition, and the challenges posed by the particular design.

9.3 Description of potential models for ERS

9.3.1 Genesis – from a UK perspective

One of the objectives of this European Commission project was to suggest a product development strategy that would enable cash-poor asset-rich homeowners to withdraw substantial amount of home equity with minimum costs incurred. The underlying objective of developing such a mechanism was to reduce the burden on State pension systems across the European Union. The market for equity release schemes in the UK already offers such products. It is a developed market with a history of more than three decades of being in operation. Therefore, a simple approach would have been to adopt UK's equity release model and to apply that to all other European markets for equity release. However, despite being the most developed equity release market in Europe, the UK market itself has a number of shortcomings. Shortcomings such as low take-up rates motivated by a small loan to value ratio (LTV), and unfavourable consumer perceptions. Therefore, equity release products in the UK are products of last resort rather than a mainstream retirement planning option.

Our research suggests that reversing negative perceptions is a collective effort involving both the professionals working in this industry and external bodies such as the government and the financial regulator. There is a scope for policy interventions in this area, which we have already discussed in the previous chapters of the report.

The issue of small LTV ratio exists for lifetime mortgages that come with the no negative equity guarantee clause (NNEG). The NNEG inbuilt in lifetime mortgages stipulates that the customer or their beneficiaries are not liable to pay for the loss in case the sale proceeds of the property are insufficient to repay the loan. This is an attractive provision for customers as it guarantees that the loan amount will not exceed the home equity irrespective of how long they live or how the house prices fluctuate (Andrews, 2012). However, it exposes providers to house price risk, longevity risk and interest rate risk (Hosty et al., 2008). In the UK, there is no provision to hedge the risks associated with the NNEG and they are borne by the equity release provider. The provider exercises prudence by typically lending a small fraction of the market value of the home to provide for contingency margins. Therefore, consumers pay for this insurance indirectly. The fact that only a small proportion of the house value can be accessed through lifetime mortgages makes them unattractive and hence affect the take-up rates (Andrews & Oberoi, 2015; Hosty et al., 2008).

The NNEG is not a regulatory requirement and the customer always has the option of purchasing the product without this clause. However, all equity release providers who are also member of the Equity Release Council must offer the NNEG. Since, ERC members dominate the market, most consumers end with small LTV equity release plans. The excerpts of providers stated in Chapter 7, Section 7.4, suggest that the LTV could be

improved through increased capital influx, which is again a problem that many providers are facing currently.

Therefore, UK equity release market is suffering from a variety of problems linked to consumer perceptions, structure of the market, the regulatory framework and cost intensive product features. A potential solution to those problems highlighted in the literature and emerging from our research is government intervention. Particularly, in a way that creates a better risk sharing arrangement between the provider and the State (Overton & Fox O'Mahony, 2015).

In this section, we discuss two models that involve the government. The first model would appeal to a younger audience, whereas the latter is suitable for older consumers, particularly those in need of sources for funding long-term care. Each of these models was tested among industry professionals, equity release experts, and potential consumers. Our analysis suggests that the government has a greater role in improving the image of equity release schemes and making them a mainstream option for retirement planning rather than taking on complete or partial risks involved in equity release offerings. The analysis also highlights potential areas of policy development and indicates that an integration of the equity release and traditional mortgage industries is worth exploring.

9.3.2 Model A: State administered Equity Release Schemes

We set out here a solution based on work by Andrews and Oberoi's (2015) that we included in the interview schedule used for semi-structured interviews with stakeholders (equity release providers, experts, the industry body and the financial regulator) and in the schedule for the third focus group with consumers.

Andrews and Oberoi's model, focusses on lifetime mortgage. It is an adaptation of the system followed in the United States with regards to reverse mortgages but with a number of features unique to it. Under this model, customers take out a lifetime mortgage in the usual way but with a government agency as intermediary. The government agency "Public Private Partnership (PPP)" processes lifetime mortgage applications from the consumer. Processing of applications entails an appraisal of the home, determination of the amount of equity, an assessment of its future growth in line with an established house price inflation index (HPI) and underwriting the mortality and morbidity risks. The PPP then carries out an estimation of the NNEG and screens investors on behalf of the borrower.

The investor/lender advances the funds to the PPP, who then progresses it to the borrower. The loan amount grows at a variable rate of interest set by an administration charge and a variable rate related to house price changes in the borrower's region (regional house price inflation index). That is, when house price inflation is high the loan would grow at a higher rate. When it is low, the loan would grow at a lower rate but there will always be some minimum charge. This ensures that the loan grows at almost the same pace as individual house price growth.

Similar to current market practices in UK's equity release market, here, the contract terminates upon death of the borrower or moving to long-term care. Once the contract terminates, the PPP sells the house and repays the lender the amount owed. Any amount in excess of the accrued outstanding loan balance is forwarded to the borrower's beneficiary. If the sale proceeds are insufficient to repay the outstanding loan amount, the PPP bears the hit and therefore, retains the premium for the 'no negative equity guarantee' inbuilt in the rate of interest charged under the contract. This further implies that the PPP insures the lenders against the risk of the NNEG coming into play.

Purpose of the model

The main objective of this model is to provide an alternate pricing model for lifetime mortgages such that the take up rate improves. Studies based on survey perceptions (Overton, 2010) and pricing models (Hosty et al., 2008; Li et al., 2010) suggest that one of the reasons for the unattractiveness of lifetime mortgages is the price charged when the NNEG is present. Although the customer does not make any regular repayments under lifetime mortgages, the lender mitigates the risks associated in offering the NNEG through

the percentage of the house value offered as loan amount. The major risks facing providers are longevity risk, interest rate risk and house price risk. There are two components of house price risk. The first component is the uncertainty of depreciating house prices and the other is the idiosyncratic part of it, which means that the changes in the value of the individual house price on which the lifetime mortgage is taken out is less than the changes in an HPI. Recent real estate literature suggests that this basis risk between an index and individual house is substantial (Shao et al., 2015). Pricing models at present either ignore or do not evaluate the basis risk and manage longevity risk by exercising prudence in the size of the loan relative to the house value thus making the product unattractive (Andrews & Oberoi, 2015).

Linking interest rates to a regional house price inflation index mitigates the basis risk, as the rates of growth of the loan and the individual house are approximately the same. This further reduces the chances of the activation of the NNEG thereby making the product safer for lenders to invest. By that rationale, implementation of this model should make it easier to get funds to lend customers. This should make the administration charge quite low meaning lower interest rates for the customer. Then as long as this charge is low and the customer's house value increases at the same rate as houses in their region, the amount of money to be repaid should grow only slightly quicker than the house value so there should be some housing equity left over to leave as a bequest.

Using the UK Land Registry data from the period 1st January 1995 to 31st December 2011 for the postcodes in the areas of Canterbury and Medway, Andrews and Oberoi find that the loan to value ratio rises to 62% when the NNEG charge equals 110 basis points (bps) and the administrative charge is 220 bps. The authors find that in the most favourable scenario (NNEG charge of 65 bps and no admin charges), the maximum loan is 89% of the appraised home value if the loan is disbursed as a lump sum and 95% if in instalments.

Lifetime mortgage vs State administered equity release schemes

The model proposed by Andrews and Oberoi is different to the lifetime mortgage model currently active in the market majorly in two ways and its implementation would incur several changes in the market. The first difference is that it involves an active participation of the government in the equity release market. The government agency acts as an intermediary between the borrower and the lender. Whereas, in the current market, organisations specialising in retirement products and life insurance companies provide equity release products. Apart from a few, most providers are distributors relying on external companies for funding lifetime mortgages. That is, those distributors are playing the role of the government agency largely. Therefore, implementation of the revised structure may have an adverse effect on such distributors. Further, it would also reduce competition in the equity release market, which could moderate the benefits of implementing this model.

The second difference relates to the nature of interest rates charged in the revised structure. Currently, most lifetime mortgages are available as fixed-rate contracts, whereby the interest accumulates at a fixed rate of interest, until contract termination. Only a limited number of companies charge variable interest rates linked to a consumer price index. Such products with variable interest rates are not popular in the present market.

Perspectives of Stakeholders in the UK (equity release providers, advisers and experts and financial regulators)

We received mixed opinions on this model. While some experts agreed with the basic concept behind it and welcomed the opportunity of government participation, as it would protect them against the NNEG, others dismissed it on several grounds. The main criticisms are as follows.

- The model proposes a drastic change to the entire market which is felt by many to be unnecessary because the current structure largely works despite its shortcomings. It is a model in which the government is liable to take on the basis risk associated with the NNEG in addition to the inherent reputational risk.

"I think it would need a stronger evidence that the market was not working, which is difficult for us to demonstrate, given that we do have a viable market." (FRIR1)

- It proposes to introduce variable interest rates rather than a fixed rate, which is one of the main attractions for consumers as well as funders involved in the market. Moreover, variable interest rate products are not very popular amongst consumers.

"From a customer's point of view, the major attraction in lifetime mortgages is that it is offered at a fixed interest rate!" (FA1)

"You have seen variable interest rates being offered but they have not been picked up and used by the customers. Now that interest rate is being linked to a CPI rather than an HPI, but they have just not taken up at all." (FP6)

- It seems complicated for consumers to understand and for providers to implement – *"Frankly no because it is too complicated to put in to effect and for consumers"* (FI1)
- Such an intervention from the government will not necessarily translate into market growth and better outcomes for consumers. In the US reverse mortgage market where the government has been performing a role similar to what is outlined here, the reverse mortgage market is still relatively small despite lower interest rates and higher LTV.

"The government is involved in a certain amount, in some of the guarantees around the NNEG in countries like in the US; it has not really helped that market to grow to where it should." (FP6).

Perspectives of Consumers in the UK

Contrary to criticisms from stakeholder, this model generated a positive response amongst the focus group participants. The group thought this model was a good suggestion and it would be attractive to many people. Primarily because with this arrangement, people would still have a portion of the home equity left to pass on to their children. Moreover, the involvement of the government would make the process uniform and provide a level of assurance to the elderly.

I think the fact that you are not going to lose a great deal of the value of your house. You know that there is ultimately there going to be something left there. I think that in itself is reassuring." (Female, one-person, 62 years)

"And there is a certain amount of uniformity as well. Uniformity I think is very important when it comes to housing policies. Certainty! Certainty!" (Male, one-person household, 71 years).

At the same time, consumers criticised the involvement of the government, primarily because of trust related issues.

"I think it sounds good but the difficulty is building the trust. You know people begin to wonder about whenever there is government involvement. You know tricks!" (Male, one-person household, 73 years).

The closest example of a product model similar to this is the Home Equity Conversion Mortgage (HECM) available in the US. HECM is a type of reverse mortgage provided by a

government body, the Federal Housing Administration (FHA).¹⁰⁵ The market for HECM is one of the world's largest reverse mortgage markets but only 3% of the eligible consumers participate (Davidoff, 2015). The intervention of the State has not increased the market significantly mainly because consumers perceive HECM as expensive. To address this issue, the FHA introduced lower cost, lower loan to value ratio, known as 'HECM Saver' (Davidoff, 2015). Introducing equity release products with lower loan to value ratio would again make them a need-based product rather than a mainstream retirement option, thereby further reducing the demand for them. The results derived in Nakajima & Telyukova (2017), an American study on the determinants of the demand for reverse mortgage, support this argument¹⁰⁶. Therefore, in the light of the US example alongside stakeholders' criticisms, it seems that this model is not applicable to the UK equity release market. Perhaps a more fruitful aspect of this model is the idea of pricing lifetime mortgages based on a regional HPI to mitigate the basis risk and ultimately increase the amount of loan offered relative to the value of the house. Lifetime mortgages with higher loan to value ratio at lower prices appear to be most desired by UK consumers.

9.4 Model B: Savings for servicing home equity release

Purpose of the model

Householders manage to repay their mortgages but approach retirement with inadequate pension provision while holding much equity in the form of residential property. The cost of funds in equity release partly relates to the necessity of interest compounding and the higher risk faced by the lender in the absence of an annual income stream over the life of an equity release contract.

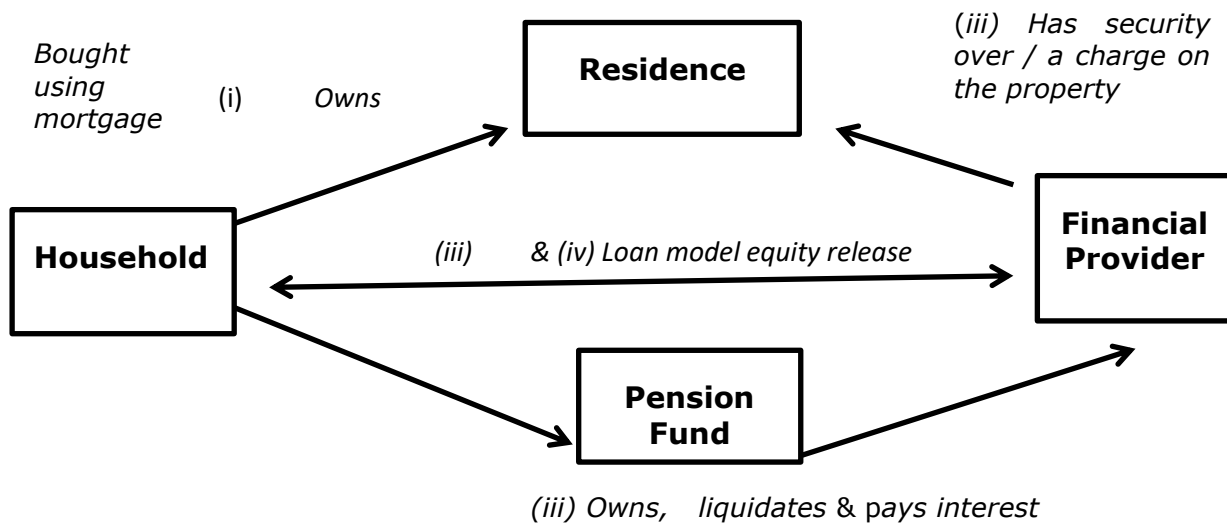
The Proposal

Householders maintain a level of savings which represent a proportion of the mortgage payment that they were accustomed to paying for the period from the mortgage termination to the normal retirement age (an interval of 8-15 years could be anticipated). This payment would qualify for tax relief as a pension contribution. The accumulated fund would then be available to service an equity release from the home residence, reduce the rate of interest charged and also reduce the risk premium associated with the advance and the cost of the no negative equity guarantee. When this fund was exhausted, a normal equity release interest roll-up would apply, but it would be for a shorter interval, and it too should command a lower risk premium for that reason.

¹⁰⁵ HECM is a type of reverse mortgage in which provides government-insured loans on appraised house value up to a limit set by the FHA. Currently, the limit is \$625500. Under this arrangement, the government insures the borrower against the risk that the lender can no longer make the payments in the contract for a fee (Munnell & Sass, 2014). The insurance premium depends on the value of the house and the longevity of the borrower. In general, the premium is 2% of the minimum of the evaluated house value or the maximum limit initially, and 1.25% of the outstanding loan balance annually, thereafter (Nakajima & Telyukova, 2017). In the revised version of the HECM plan, borrowers pay a mortgage insurance premium of 0.5% of the loan amount. However, the loan amount offered relative to the house value is smaller (Munnell & Sass, 2014).

¹⁰⁶ Nakajima & Telyukova (2017) conclude that the introduction of stricter borrowing limits for all future borrowers but decreasing the upfront insurance cost for those with lower balances will further decrease the take of reverse mortgages. Nakajima & Telyukova analyse the determinants of reverse mortgage demand by developing a calibrated structural model of retirement where older households make decisions about consumption, saving, housing and reverse mortgages.

Figure 23: Model B - Savings for Servicing Home Equity Release



Steps in the process

- (i) *Householder buys residence repaying mortgage in full.*
- (ii) *Householder saves further for retirement, buying a private pension to supplement other retirement income.*
- (iii) *Householder concludes an equity release contract with a financial provider using the pension fund to service the loan until that fund is exhausted*
- (iv) *Householder will then use remaining equity in the home to service the loan and to repay it when occupancy ceases.*

The Benefits

- (i) **Interest Cost:** the finance charge on home equity release should be lower than what currently prevails.
- (ii) **Regulation:** supervision of suppliers should take into account the income stream that exists for several years in the equity release contract and this could be reflected in capital requirements for suppliers and in the valuation of related assets.
- (iii) **Enhanced pension provision:** this model increases private pensions in a manner which complement equity release and renders an improved value proposition to the householder.
- (iv) **Tenure:** the householder remains in occupation of the home residence.
- (v) **Flexibility:** the householder could delay the commencement of home equity release and continue to pay into the pension contract to build up the contingent capital that such a fund represents.
- (vi) **Scope for capital appreciation:** the householder continues to benefit from capital appreciation throughout the period of occupation.
- (vii) **Bequest:** the potential for a bequest is improved because of the delay and/or elimination of the interest roll up and the possibility of a lower interest rate throughout the contract.

The Challenges

- (i) **Savings propensity:** the appetite for deferring consumption post termination of the original mortgage contract may not be great.
- (ii) **Interest cost:** financial providers may be unwilling to lower interest rates in the equity release contract, so competition will be key to this outcome being obtained

- (iii) **Periodic payments:** The market may not wish to offer an annuity type equity release contract.
- (iv) **Inflexibility:** The householder may wish to use the private pension fund for some other purpose than servicing equity release.
- (v) **Costs:** The householder might be better served economically by increasing savings in an existing pension contract rather than taking out a new one.

9.5 Model C: Lifetime Tenancy

Purpose of the model

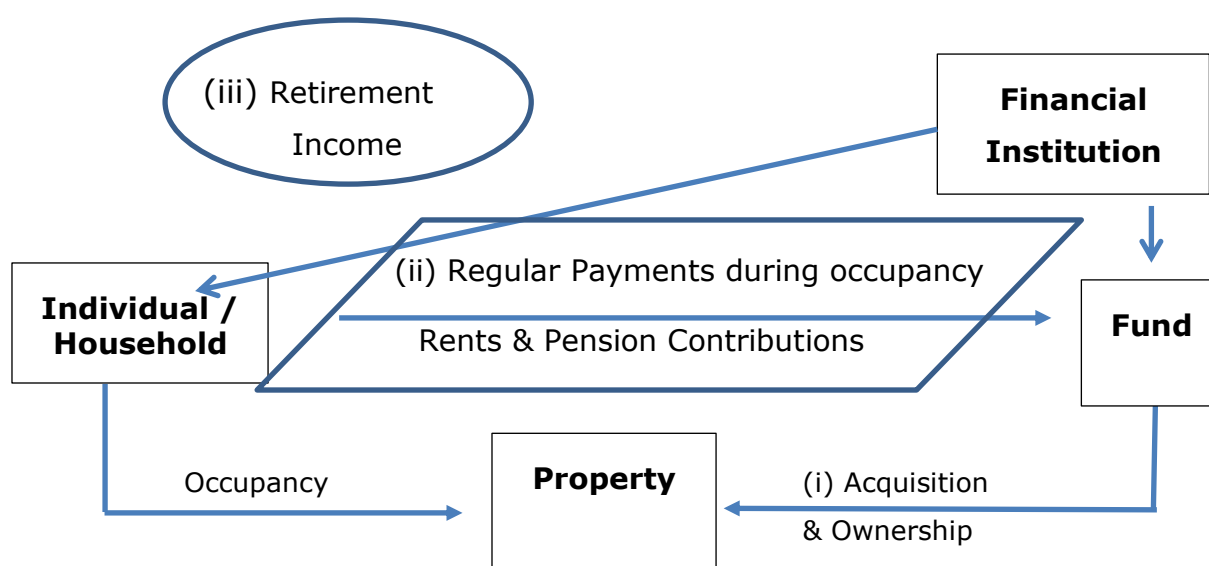
People in the 25-35 age cohort seek to have their own home, in many cases for the first time, independent of their original family unity. Their incomes are usually at a modest level reflecting their experience and qualifications. House and apartment prices are often at levels which represent too high a multiple of their gross and net income (income after tax and social insurance). This means they must securing housing through the private or social rental market. Such a group often delays commencing the process of providing for retirement income until much later if at all. Where no provision is made, this means the cohort would rely almost entirely on state resources for retirement. These individuals and couples are also vulnerable to rent increases, particularly in private rental markets where housing supply is less than demand and there are dysfunction consequences from unconstrained market forces operating through the price mechanism.

The Proposal

Individuals and households would obtain occupancy rights under a long term tenancy on a residential property at a market rental which reflects the absence of vacant periods, a lower level of maintenance costs because of the shared interest in upholding the standard of the accommodation as a home and the absence of regular advertising and legal costs typically associated with new tenancies. The tenancy would afford the occupier the equivalent of a lifetime lease. In parallel with this tenancy the tenant would take out a private pension. The tenant would obtain tax relief on the payments to the financial institution, of an equivalent rate or amount that applies to rental and pension payments otherwise made by individual households.

In the household formation phase, couples face constraints in affording house purchase, pensions and childcare. These constraints are likely to be exacerbated if interest rates rise from their recent historic low levels. There is a growing pattern of property rental and this is likely to continue. Mandatory enrolment in pension schemes is on the policy horizon so the State and suppliers will seek innovative solutions for those caught in this expenditure dilemma.

Figure 24: Model C: Lifetime Tenancy



Steps in the process

- (i) The Fund acquires the property.
- (ii) The Fund leases to a tenant household who make regular payments during occupancy consisting of rent and a pension contribution.
- (iii) The Tenant supplements retirement income by drawing on the pension in retirement while continuing to rent. If income improves during working life, the tenant could buy the property at market price (rent to buy).

The principal assumptions that were used in developing and assessing this model are set out in Table 63. This model is informed by the economic situation in the greater Dublin area and by Irish policy with respect macro prudential lending, the supply of housing, the price of housing and levels of earnings. While circumstances are quite acute in this market, the forces at play share many similarities with comparable and larger cities across the European Union, particularly where housing affordability and savings capacity render outright purchase and pension provision beyond financial reach.

Table 63: Assumptions underpinning the evaluation of long term tenancy and its substitutes

Variable	Assumption
Income Inflation	Income Growth : 3%
Taxation	Using Irish income tax rates and rules
House Price Inflation	4% pa
Mortgage interest rate :	4.5%
Residence	2 bed apartment @ €220k per unit
Income	Single €50k
Deposit	€20k required
Rental Yields	5% pa
Contract Duration	Start age 30 and retire at 65
Pension Fund return	5% pa after charges
Tax Treatment of consumer payments	Examined effect of rent and interest being deductible & just interest being deductible
Multiple of earnings for mortgage loan	3.5 times income
Maximum Loan to value ratio	90%
Housing & Savings propensity	35% of take home pay

To assess the merits of this approach the following assumptions were used as a basis for assessing the present value of cash flows in four scenarios, with the latter two representing substitutes for long term tenancy arrangements:

- (i) A long term tenancy coupled with a personal pension contract with tax relief on both interest and rents
- (ii) A long term tenancy coupled with a personal pension contract with tax relief on interest and not on rents
- (iii) A conventional mortgage purchase
- (iv) A conventional short term tenancy

The tax treatment of payments is critical for the householder and for the State. Macro-prudential borrowing rules provide constraints on the amount of capital that may be borrowed and in turn narrow the choice and place of residence. This situation is a critical issue in larger urban areas where the relationship between house prices and modal incomes is acute in the sense that young couples cannot reach to the purchase price of the

residential units on the market. In many cases, a high a multiple of earnings is required to buy a residence than could be financed by a combination of household savings and a mortgage.

The results in net present value terms may be expressed as follows:

Table 64: Results in assessing long term tenancy evaluation

Scenario	NPV in €'000
Long term tenancy with tax relief for interest & rent	€656k
Long term tenancy for interest only	€538k
Conventional mortgage with interest relief	€583k
Conventional short term tenancy	€344k

These results demonstrate the relative attractiveness of the choices young couples face. Macro-prudential constraints limit the conventional mortgage scenario for the reasons outlined earlier. Where the market entry level house in Dublin could be made available at €330k to €360k, few are because of housing supplier preferences for higher margins on larger homes being built on development land. As a consequence the long term tenancy coupled with pension product offers a (conditional) preferable financial result than a succession of short term tenancies which are more expensive. All three stakeholders are central to these scenarios in terms of interest and expense charges, the delivery of investment returns, the supply of suitable residential accommodation, the commitment to paying rents and pension contributions and the legal and taxation framework in which these financial transactions occur.

In the ERS provider survey, the question was asked:

"Would you consider a product solution which involved the bundling of a long-term tenancy with a private pension?"

Less than half of the firms would consider (three "yes" and seven "maybe" answers) a product solution involving the bundling of a long-term tenancy with a private pension. This suggests that there may be some reluctance to proceed with this solution as currently shaped and further design iterations may be necessary to obtain market traction.

9.6 Model D: Lifetime Home Purchase and Equity Release

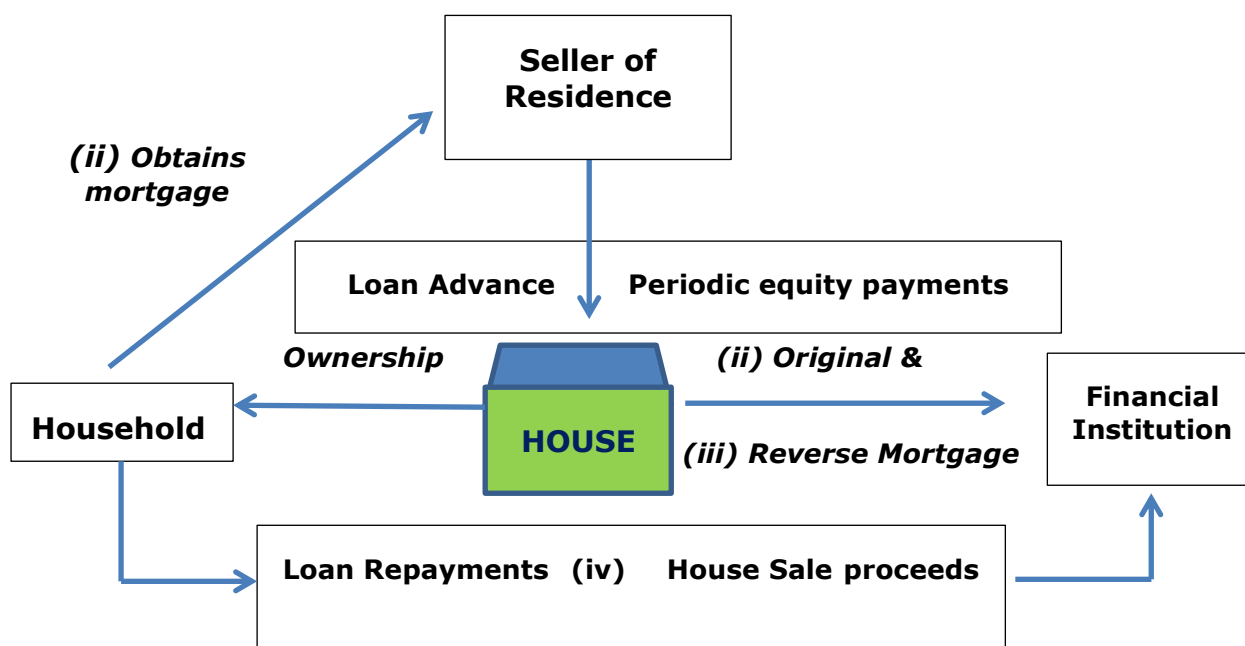
The Purpose of the Model

Households cannot afford simultaneously to buy a property and to accumulate pension savings. Thus they prioritise housing as it is an immediate need and persists throughout the working lives of the original householders and beyond that into retirement. Many will not make separate provision for retirement over and above the State social insurance pension.

The Proposal

A couple or an individual buys a property financed by a mortgage from a financial service provider which in turn commits to releasing the householders' equity in the property once the property owner(s) have reached their normal retirement age(s). Again, this is a bundled product which integrates pension provision with residential property.

Figure 25: Model D: Lifetime Home Purchase and Equity Release



Steps in the process

- (i) Household buys residence while obtaining mortgage
- (ii) Mortgage contract is coupled with an equity release commitment by the household & the financial institution.
- (iii) On retirement, the financial institution makes periodic payments based on the home equity to the household.
- (iv) The sale proceeds of the house when occupancy ceases, reimburse and reward the financial institution

The Benefits

- (i) **Retirement income:** Household residential equity is converted into cash which is made available for consumption.
- (ii) **Flexibility:** the original residence may be sold and replaced by a substitute residence without terminating the original contractual nexus.
- (iii) **Income streams for suppliers:** An income stream arises covering almost the entire adult lives of the customers.
- (iv) **Affordability:** households with sufficient income for servicing a mortgage for house purchase can obtain a minimum level of additional consumption in retirement derived from the release of housing equity.
- (v) **Tenure:** householders get to remain in the family home until (i) one or both parties move for social or medical care reasons or (ii) their demise.

The Challenges

- (i) **Strategic drift:** retail credit solutions and pension solutions are conventionally managed by distinctly different businesses in the financial sector and as this product combines them; this represents a challenge for some providers.
- (ii) **Regulation:** supervisory authorities and the law generally treat credit and retirement income provision as distinct categories.
- (iii) **Bequest motive:** households effectively extinguish the possibility of a bequest from the very outset of residential purchase and such option closure is not reversible under the basic model.

- (iv) **Lack of diversification:** the household's supplementary retirement income is entirely linked to a single asset located in the same settlement and economic area from which they have derived their primary income during their working lives.

9.7 Model E: Shared Unitised Home Purchase & Home Equity Release

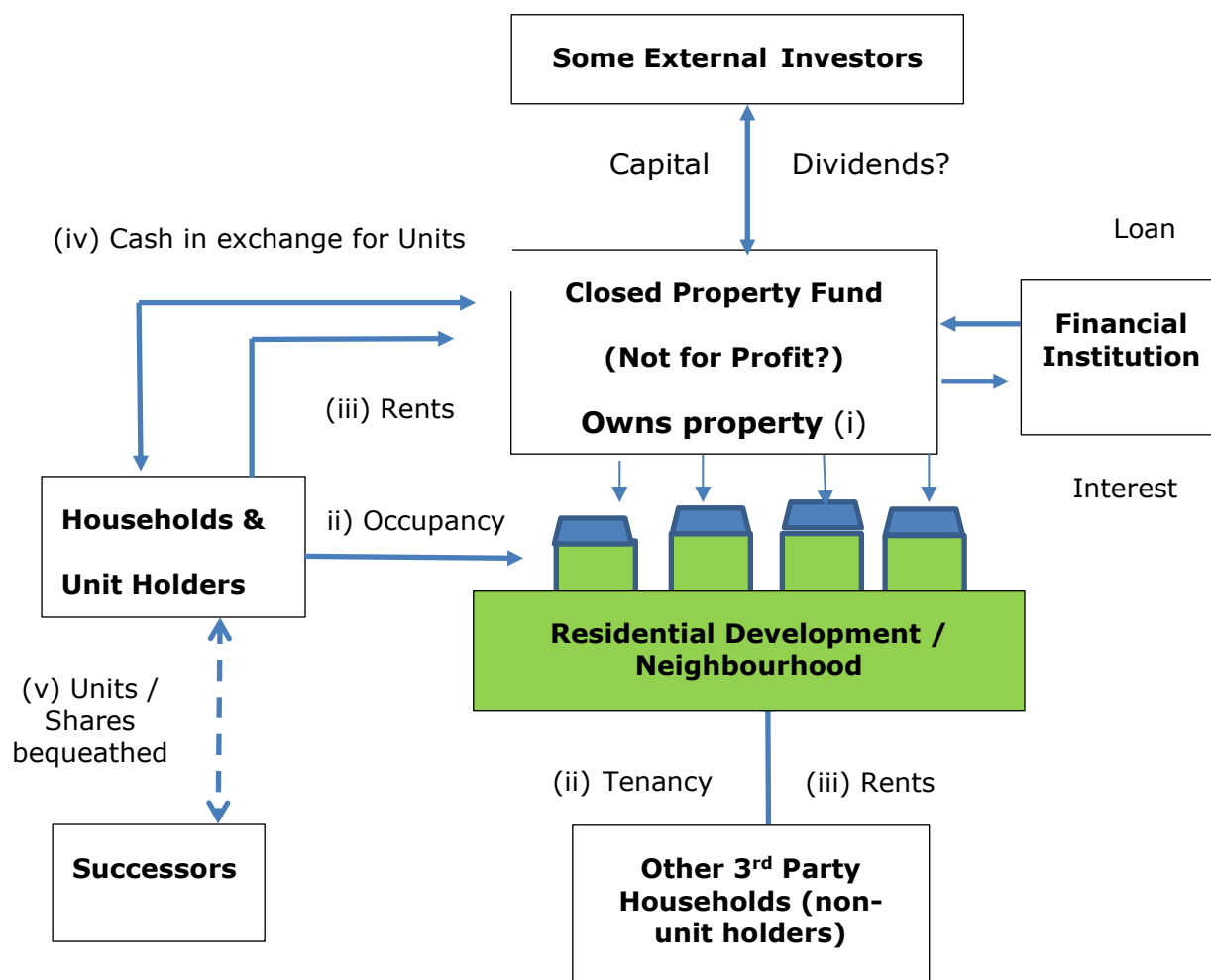
The Purpose of the Model

Households may not be able to afford individual houses in built up urban areas. Land prices may dictate denser land usage. The planning authorities (local authorities, provincial government, federal government departments) may favour socially mixed developments in order to avoid the development of ghettos and homogeneous low income residential complexes. The planning authorities do not wish to be involved in the day to day management of residential units which require dedicated skills, systems, contracts, behaviours and governance.

The Proposal

A legal structure is established, analogous to a closed end investment fund which acquires or finances the development of a residential complex (houses or apartments). The property owner issues units to a housing association and individual occupiers in return for a capital payment. The property owner may also borrow from capital markets or financial institutions and the goal is to ensure that the loan capital does not exceed 60% of the value of the residential complex in order to obtain favourable interest rates. The occupiers may acquire additional units while they occupy the property or where they are socially supported tenants, will pay or have paid on their behalf, rent for the space occupied. The property owners conduct the estate management. The unit holders in the property ownership fund may redeem their units on retirement by selling them back to the fund, thereby releasing capital for consumption purposes. This serves as additional retirement income. They could also pass on their units by way of a bequest or dispose of their units by way of a third-party sale.

Figure 26: Model E - Shared Unitised Home Purchase & Home Equity Release



Steps in the Process

- (i) A closed fund is established which may have external investors, can borrow and can acquire residential properties.
- (ii) These properties may be occupied by a mixed residential community which consists of households who buy units in the fund and who rent and those who do not buy and who also rent.
- (iii) The fund manages the property and services the loans and externally held units from the rents.
- (iv) The unit holders on retirement may sell back their units to supplement their income and will then rent what they occupy.
- (v) Alternatively, the unit holders could bequeath the units to their successors.

The Benefits

- (i) **Retirement income:** households can accumulate housing equity in the form of financial units that can be released / redeemed on retirement
- (ii) **Access to housing:** people on modest incomes can obtain housing in built up residential communities

- (iii) **Affordability:** the cost of the property being acquired is spread over the occupiers working lives in a similar manner to a mortgage, with the borrowing activity aggregated through the property fund vehicle.
- (iv) **Flexibility:** the unit holder can acquire additional units over their working lives and reduce the amount of rent that they pay as they seek to accumulate household equity in the form of units.
- (v) **Bequest Motive:** the possibility of a bequest is maintained
- (vi) **Tenure:** lifetime tenure is obtained once the terms of occupancy are observed.
- (vii) **Capital returns:** lenders provide capital with a 40% valuation cushion and where there are socially mixed rates of occupancy, with a degree of assurance regarding the property fund's rental stream and cash flows.
- (viii) **Capital advances:** this is a conventional property mortgage scenario familiar to many lenders
- (ix) **Residential mix:** this model offers a housing solution consistent with social policy.
- (x) **Upward mobility:** as householders' incomes improve, it is possible that they could move into a feasible region of becoming unit holders with enhanced retirement income and bequest possibilities otherwise not accessible as tenants.

The Challenges

- (i) **Fund Capital:** the model is predicated on households and housing associations or their equivalent) providing the 40% initial equity in the fund which would underpin parallel commercial borrowing.
- (ii) **Fund management infrastructure:** this comes at a cost though there are overlapping costs with the conventional apartment block housing model - the incremental costs relate to managing the rental activity and managing the credit drawdown, servicing and repayment.
- (iii) **Model familiarity:** this model is likely to be more familiar to market participants where there is a history of apartment style living, and less so in those markets where individual housing units are more common.
- (iv) **Scope for capital appreciation:** A consistent approach to maintenance, repair and refurbishment is required, shared across the entire complex and by unit owners and socially supported tenants if the scope for favourable capital appreciation is to be retained.
- (v) **Flexibility:** some administrative rigidity is likely to apply for unit holders seeking to move home to another residence outside of the apartment complexes.

9.8 Model F: Integrating Traditional Mortgage and Lifetime Mortgage into One Product

This product model is an amalgamation of a traditional mortgage and a lifetime mortgage. Here, the customer buys an integrated mortgage and equity release (lifetime mortgage) product. The government provides tax relief on all mortgage payments. This tax relief is saved into a retirement pot on behalf of the customer, which accumulates interest until the customer retires. Upon retirement, the customer draws from the accumulated pot of money as either a lump sum or annuity. Additionally, the customer enters into a lifetime mortgage plan. Therefore, the total income generated is a sum of the income drawn from the accumulated retirement pot and the home equity released through a lifetime mortgage.

The Purpose of the model

This model might appeal to a younger audience seeking to get on the property ladder. The design of the model is such that it enables younger homeowners to save for their retirement and it ultimately makes consumers less dependent on the State pension system. The key advantage of this model is that it has the potential to generate a substantial amount of retirement income in comparison to a state pension or an equity release plan. Moreover, it provides consumers with all those flexibilities that they would have received in a traditional mortgage product. For example, under this model, customers have the

option of moving to another house, taking out a second mortgage on the property or downsizing.

Model set-up & Assumptions

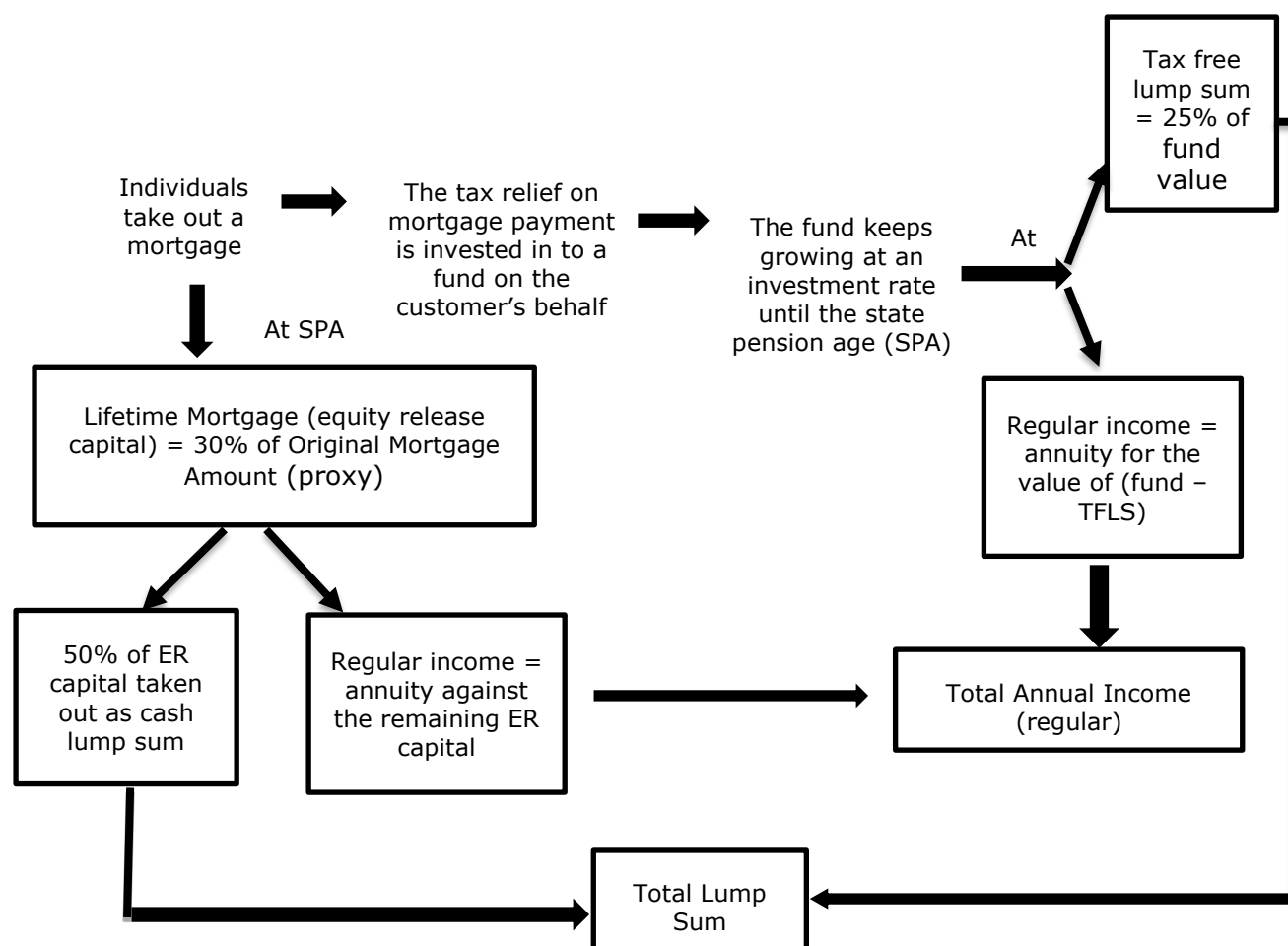
Figure 1 explains the model diagrammatically. The transaction initiates from the point where the customer takes out a mortgage. The mortgage provider deducts a fixed percentage of the mortgage repayment the customer makes each time as a 'tax relief' and invests it into a fund on behalf of the customer. The percentage of the tax relief offered depends on the State's fiscal policies. The fund accumulates interest until the customer reaches their State Pension Age (SPA). Assuming that the customer repays the mortgage by their state pension age, the customer is entitled to draw down from the accumulated fund either a tax-free lump sum or annuity. Current UK regulations allow individuals to withdraw up to a maximum of 25% of the value of fund as a tax-free lump sum (TFSL). This model works on the same principle.

At SPA, the customer must also release home equity through a lifetime mortgage. In the current market for equity release products, the amount of capital released through a lifetime mortgage is a fixed percentage of the customer's house value. The proportion of the house value released depends on a number of factors such as the age of the customer, the property value, house price inflation and macro-economic policies. The percentage released is determined through an actuarial calculation that accounts for all cash flows (inflows and outflows) and the risks facing providers in such product offerings. Risks such as lifetime mortgage products expose providers to a number of risks including longevity risk, house price risk and interest rate risks. For the purposes of this model and to approximate that calculation, the model assumes that the amount of capital released equals 30% of the original mortgage amount. Again, the customer has the choice of withdrawing the capital as a lump sum or regular payments.

Therefore, this model provides two sources of income stream in retirement. One that comes through the tax reliefs offered on all mortgage repayments and the other one through an equity release scheme. Below is a detailed illustration showing the total amount of income a consumer could generate in retirement should they release capital from their home.

The model works on three main assumptions. Firstly, customers pay off their mortgage before their retirement. Secondly, individuals can access the accumulated fund only after retirement. Lastly, they must purchase a lifetime mortgage on retirement to be able to access the accumulated fund.

Figure 27: Model F: Home purchase with tax relief allocated to a pension



Variables

Table 65 presents the list of variables that affect the amount of equity released under this model and the values assumed for each of them. These assumptions are in line with current market practices. For example, the mortgage interest rate set is the average standard variable rate from the Bank of England. Similarly, under pension legislations in the UK, pensioners can withdraw a lump sum up to 25% of their pension fund free of tax. This model applies the same logic. Investment return of 5% is an average of best-estimated return of 50% bond and 50% equity. The roll up interest rate on equity release plan of 5.5% is the industry average.

Table 65: List of Variables (Model F)

Variable Name	Value
Mortgage interest rate	4.25%
Investment Return	5.00%
ER roll up Interest rate	5.50%
Annuity interest rate	3.00%
Inflation	0.00%
Lump sum expense	5.00%
Initial expense	30%
Annual expense	5%
Tax Relief	20%
TFLS %	25%
ER LS %	50%
ER capital %	30%

Note: These assumptions are in line with currently followed market practices.

Illustration

A 25-year old male takes out a mortgage of £200,000 for a period of 30 years. The normal retirement age/state pension age for this person will be 68 years. With a mortgage rate of interest of 4.25%pa, the individual should pay a sum of £11,673 as mortgage repayments. This amount is calculated on the assumption that payments are made continuously at an annual basis.

We then calculate the prospective retirement fund, which is the accumulated value of tax relief on repayments rolled up to the normal retirement age. The prospective retirement fund is similar to a pension fund from which the individual can withdraw in his retirement. We calculate the accumulated value of this retirement fund using an investment return of 5%pa. The fund value in this case is £299,740. The individual can then draw 25% of his prospective retirement fund as a tax-free lump sum. The remaining balance is annuitized using the annuity calculator and mortality table.

The next step is to calculate the equity release elements. In line with current market practices in the UK, we assume that the individual can withdraw up to a maximum of 30% of the house value as the equity release capital. We take 30% of the initial mortgage value as an approximation of the housing equity (capital) released. Again, 50% of this capital can be drawn as a lump sum. The person receives the remaining capital as annual annuities.

Therefore, the total amount of lump sum for this individual works out to be £104,935 (see Table 66). In addition, the individual receives a regular income of £17,717 per annum for the 17 years which is the life expectancy for a 65-year old male, based on PMA and PFA92c20 mortality tables. Table 66 contains a detailed illustration of the calculations mentioned above for individuals aged 25, 35, 45 and 50 years.

Table 66: Illustrations (Model F)

	Gender	Mortgage	Term	Current Age	NRA	Annuity	Future Life (from NRA)	Income from Fund (Fund = Accumulated Value of Tax Relief on Mortgage Payment)				Income from Equity Release Scheme			
								Mortgage Repayment (annual)	Prospective Retirement Fund	Pension Tax-Free Lump Sum	Pension Income	Maximum Equity Release Capital	Accumulated ER Loan	Lifetime Mortgage (Tax-Free Lump Sum)	Lifetime Mortgage (Annual Income)
F	M	150,000	15	50	67	15.50	21.48	13,444	65,555	16,389	2,975	45,000	149,203	22,500	1,361
	F	300,000	25	35	68	15.03	20.61	19,307	279,036	69,759	13,051	90,000	284,838	45,000	2,806
	M	350,000	20	45	67	13.46	18.58	25,783	192,645	48,161	10,046	105,000	298,138	52,500	3,650
	M	200,000	30	25	68	13.46	17.73	11,673	299,740	74,935	15,631	60,000	162,776	30,000	2,086

Notes:

1. The amount of lump sum and regular income decreases with age
2. Female and Male Annuity Calculator: In this model, an annuity calculator is set up to reflect the lives observed under PMA and PFA92c20 mortality tables. The calculator produces annuity factors for males and females in the age bracket of 50 to 120 years. The annuity factor reflects interest rates and inflation related increases. The net interest rate feeding into the calculation of these annuity factors is a combination of mortgage interest rate and returns on investment.
3. Life expectancy: In this model, we calculate life expectancy using PMA and PFA92c20 mortality tables for males and females. This is consistent with the annuity calculator with the exception that the both interest and inflation related increases are set to zero.

Perspectives of Stakeholders in the UK (equity release providers, advisers and experts and financial regulators)

In addition to stakeholders' views presented in Chapter 7 of this report, the interview schedule generated views on this model. They were both positive and negative views. Stakeholders were optimistic because the model appears to have the potential to increase the take up rates of lifetime mortgages and seems to be an effective retirement saving option. At the same time, they expressed that the model seems simple for consumers to understand and for the industry to adopt and implement it. In addition to that, they spoke positively about the aspect of combining mortgage and equity release schemes, which is currently an area of research interest for equity release and mortgage professionals. This

has been prompted by the increasing number of people retiring with debts, especially interest-only mortgages.

At the same time, stakeholders were critical of the model in a number of areas. It was widely criticised because implementation of this model would evoke major policy changes for taxpayers necessitating support from the government. There is no provision of tax relief on mortgage repayments in the UK (although mortgage tax relief exists in other parts of the EU). At a time when the UK government is trying to make the tax system fairer by removing tax benefits, implementing policies that would allow tax relief on mortgage payments seems unlikely to happen. For example, the State decided to remove mortgage interest reliefs for buy-to-let property owners by the year 2020. Thus, the major hurdle to this model being applied is generating favourable support of a UK government intent on shrinking the role of government in the economy

"As a taxpayer, why would I support this?" (FP10)

"Having a mortgage and an equity release product combined, yeah, we are starting to do that and there is definitely a big mileage in that. In terms of linking the tax relief and getting it would be fantastic but I can't see the government doing it!" (FP7)

Further, the model attracted negative reviews because it does not conform to the current advice model active in the market. According to that, consumers have the right to choose whether to purchase an equity release scheme or not, even after they have undergone the advice process. Whereas this model forces a lifetime mortgage upon customers from a very early age.

"In this model, you are driving down the route that you have to take equity release, which doesn't conform to any of the equity release advice process at all." (FA2)

In fact, the model will suffer advice related issues because it falls into two separate product areas. In the pre-retirement stage, the younger borrower enters a mortgage by going through an advice process offered by a generalist mortgage adviser. In the post-retirement stage, the product converts to a lifetime mortgage. However, the customer does not go through an adviser specialising in equity release to determine whether a lifetime mortgage would be suitable for them. They receive advice through a mortgage adviser at contract initiation. Therefore, the generalist mortgage adviser must possess equity release qualifications and have the authority to offer advice on those products. Currently, there seems to be a shortage of such advisers in the market. Hence, linking the two could be difficult commented providers:

"You have got mortgage brokers who are selling equity release so they are mortgage qualified equity release advisers. Quite often, you consumers tend to ask questions on pensions schemes. They are authorised to speak about pensions schemes that is the job of a pension adviser. So linking the two together is difficult." (FP7).

Finally, while the concept of integrating the two products into one seems attractive and practical in the light of social and demographic changes, interviewees did not approve of combining mortgages and equity release into one product. The argument of bringing mortgage and equity release products together is to provide consumers with the assistance to manage their debts in retirement (if any) alongside funding consumption needs and reducing the strain on state pension systems. In many stakeholders' views, it seems the model would fail to achieve the desired effect primarily because younger people lack the enthusiasm to save for retirement needs unless there are incentives attached. As a counter argument to that, there is a tax benefit attached to this model, which is saved into a retirement fund. Still, stakeholders argued that the model would not be successful because it does not provide access to those funds pre-retirement.

"I think your point around linking the two, definitely yes but I do think that is more at a transitional point but not from an early age. it is not in the consumer psyche. They don't save for pensions, they won't save for care! ... "Where there is what we call parameters of restrictions on the usage of savings it becomes unpopular. Where there is a flexibility in that saving then I think that is quite useful and well received." (FA2)

Thus, the amalgamation seems practical but only if it is at a stage closer to retirement such that the consumer is progressed from one product to another smoothly adhering to the advice process and without the loss of pre-committed benefits available only in retirement.

Perspectives of Consumers in the UK

We included this model in the schedule for the third focus group with the objective of assessing the practicalities and limitations of the model from a consumer's point of view. Consumers agreed that the model would be attractive to first-time buyers. They were of the opinion that there is need for providing support to younger people in both purchasing a property and saving for retirement. They also agreed that mortgages and retirement savings should not be treated separately and they expect to see schemes that would encourage homeownership and retirement saving at the same time for younger individuals.

The major criticism was that it involves a long-term outlook. It seems unviable for a product buyer to be unable to access the accumulated fund before retirement. The participants were of the opinion that it is not feasible to restrict customers in terms of using their money. Especially, because most people have a tendency to use any tax benefits they receive for paying of their mortgage. Moreover, they mentioned that from a young person's perspective, it would be difficult to commit their home for supporting retirement consumption.

"This model may prove difficult for some home buyers as many rely on the tax relief to help pay their mortgage in the early years. Possibly this model could be introduced within 10 years of a mortgage being taken out." (Female, one-person household, 62 years)

"The pot itself might be something that you are not going to get but you are going to give it somebody else, so again you have to give flexible conditions around the pot." (Male, one-person household, 73 years)

Overall, this model is a novel concept that promises to address a number of social concerns. The perspectives of consumers and professionals highlight the importance of introducing products that enable people to purchase a home and use it towards their retirement savings simultaneously. The market definitely has a scope and an interest in introducing hybrid products that view house purchase and retirement saving in the same domain. Maturing interest-only mortgages are one of the reasons for developing such hybrid products but the major objective of product innovation is to reduce the level of income inadequacy in retirement through housing products rather than government subsidised plans.

Undoubtedly, the perspectives of consumers and professionals on this model indicate many practical limitations to its application, especially, the issue of financial advice at contract initiation and at the point of transition. While we agree with most of the criticisms highlighted previously, we disagree with two points.

First is in relation to the point made that the implementation of this model would increase taxpayers' burden. It is highly unlikely that the UK government would want to increase taxpayers' liabilities in any way. However, a model such as this could possibly be fiscally sustainable as it may reduce the burden on the State pension system. Therefore, a concept like this is worth exploring for policymakers and industry experts.

The second point with which we disagree is the criticism made about the restriction on accessing funds before retirement. Allowing people to access funds before retirement is similar to the pension reform introduced in April 2015, which abolished the compulsory requirement to convert a defined contribution pension pot into an annuity. People over 55 years of age have the flexibility to spend their retirement pot as they wish. The FCA's (Financial Conduct Authority) latest interim report on 'study into retirement income market' shows that over 53% of pots accessed have been fully withdrawn. Although most of these withdrawn pots were not spent but instead saved elsewhere, this can result in consumers paying too much tax, missing investment growth and other benefits (FCA, 2017). Moreover, there is a risk of people spending their retirement pot earlier than expected. Therefore, in the light of such facts, it makes sense for the model to feature rules for

accessing funds. There is always a scope for incentivising such restrictions through other benefits but that is another area of policy development

9.9 Conclusion

These proposals have been discussed with stakeholders in participating countries represented in the consortium. Such discussions have involved a combination of roundtable dialogue and one-to-one meetings with regulators and suppliers. There have also been six focus groups with consumers which involved obtaining their views on these schemes.

The solutions are of necessity expressed in conceptual and outline form. Only suppliers have products and they exist on financial, legal, information technology, and marketing platforms. These platforms, while having some common elements across companies, are manifestations of underlying proprietary knowledge and practices peculiar to individual commercial concerns. Individual suppliers seek to operationalise product concepts taking into account the interfaces which they have with respect to the market place and the other actors within it. Some large groups operate across national boundaries, some have well developed electronic platforms, and some have large client bases covering a wide spread of income levels. Thus, it is neither possible nor appropriate to specify at this stage the detailed blueprint which would map out the commercialisation of these solutions or those that might be derived from them.

Notwithstanding these limitations, the proposals offer a menu of possibilities that can be considered by suppliers, government agencies, consumer advocates, pensioner groups, and further refined through such dialogue. What is envisaged is that a model of *open service innovation* (Chesbrough 2011) would be applied in a recursive manner to finding economically and socially acceptable solutions. This means that over a period of time, further interrogation of the proposals can be undertaken and the trade-offs made between the variables in Table 61 on page 193.

It is also worthwhile to consider these proposals in terms of the degree of innovation manifest in them. In none of the cases could one claim that they are radical solutions: they manifest variations in tenure, risk management, form of ownership and combinations of existing contract models. A fairer description would be one of incremental change and therefore they may be more in tune with the absorptive capacity of market stakeholders.

In terms of the timing of policy development and interventions, the proposal which addresses current householders with equity is likely to represent the more readily executable option. It uses existing legal structures, distribution platforms, regulatory mechanisms, tax treatment and financing channels. It also draws on lessons learned in US equity release markets.

The next relevant group that will retire in the medium term is the demographic segment of householders who are fully committed to residence ownership through a mortgage or who have just cleared their mortgage liabilities. Public policy could now give attention to examining the ways whereby this group could initiate a financial planning process that would equip these households to augment their income through liquidating housing equity on a favourable basis. Value in these circumstances may be provided to householders and financial service providers through product design such as that outlined in the proposal to utilise the savings capacity that exists when mortgages are fully discharged. This savings capacity would need to be harnessed through a sound investment proposition coupled with incentivised fiscal treatment. Together these need to create a fund base which can leverage equity from the holder's private residence. The current proposal aligned with this group offers such a choice, through modifying short term consumption in order to provide additional resources for later consumption in retirement.

In the longer term, in societies where home ownership was the dominant mode of tenure these communities may require new forms of occupancy that provide comparable though not identical residential outcomes. Development of these new forms will involve tensions and conflict, but that friction has within it the possibility of smoothing the emergent frames and models as policy and market actors bring to bear their intellectual, capital and political

forces on the solutions. The proposals here offer a range of possibilities combining occupancy with separate retirement savings or occupancy with the residence as the repository of retirement savings either on an individual or a collective basis. To some degree the choice here is between obtaining the utility of occupancy on its own and/or combining it with the utility of capital accumulation through residential property. Urban living promotes certain forms of collective consumption. This is visible in library membership, public parks, sports grounds, theatres, hospitals, public transport, potable water, schools etc. Many similar phenomena are consumed on a collective basis. The solutions for the younger age cohort tap in to this secular social trend. Higher population densities increase the propensity for shared consumption models and the compromises that these demand.

In light of what we have already discussed, there may be a role of the government in the equity release market but not in the form of subsidising the NNEG. Interesting avenues for further exploration are the approaches to mitigate the basis risk. Moreover, there is a greater role of the government in terms of improving the overall image of the market and in promoting equity release products as a mainstream retirement planning product as identified in Chapter 7. The feasibility of these models in other European markets for equity release products might vary because those markets are currently underdeveloped and they are culturally different to the UK.

In this project, it is evident from the dialogue with stakeholders that a short term perspective is the comfort zone for many participants in financial and economic decision making. This is sometimes referred to as myopic decision making. Yet housing and pensions are both long term issues requiring matching financial commitments. Whether it is interest, rent, loan repayments, periodic advances, asset holding, asset maintenance, occupancy, fiscal treatment of flows, all require householder, financial institution, and State involvement on a consistent basis over decades. However, each party desires a degree of flexibility in order to respond to changing circumstances. Respective examples include individual employment and residential mobility, institutional capital allocation and reward, and fiscal contraction or expansion.

Public discussion regarding the level of State pensions, the provision of social care and health care, the socialisation or individualisation of risks in the community, the practical application of intergenerational solidarity, the factor returns in society and the burden sharing between households, employers and the State in providing retirement income, will all form part of the backdrop to considering these proposals. Creating the option for householders to leverage currently illiquid capital should be one of the choices that they have, and to do so on improved financial terms while meeting their basic need for a secure home in a connected community with access to networks and facilities that maintain physical and mental health.

Because these proposals are targeted at different age cohorts, they have within them the potential to improve supplementary pensions / retirement income for each of those cohorts in retirement. These are not the only means of doing so. This was indicated in the chapter dealing with focus groups; for example, downsizing, renting out a room, and internal family arrangements, are all other means by which retired people can derive additional cash from their current residence. What public policy should seek to achieve is to reinforce the suite of choices available to retired people and to create the conditions by which those choices can be realised in retirement. This is only possible through household financial planning and public policy coordinating with financial service and real estate suppliers within an urban planning setting. In a social market economy, fiscal interventions, incentives, and the price mechanism all play a part in the allocation of resources by market actors. These policy proposals have sought to engage with these constituents in a constructive manner through affording each one a place in the individual proposals.

10 References

- Alai D., Chen H., Cho D., Hanewald K. & Sherris M. (2012). Developing Equity Release Markets: Risk Analysis for Reverse Mortgage and Home Reversion, *8th International Longevity Risk and Capital Markets Solutions Conference*, Waterloo, ON, Canada
- Alai, D. H. et al., (2014). Developing Equity Release Markets: Risk Analysis for Reverse Mortgages and Home Reversions. *North American Actuarial Journal*, Vol. 18(1), pp. 217-241.
- Amárach Research, Ronan Lyons, Lorcan Sirr and Innovation Delivery, (2016). Housing for Older-People Thinking Ahead, *Ireland Smart Ageing Exchange & the Housing Agency*, Dublin Ireland.
- Amenc N., Cocquemas F., Martellini L. & Sender S. (2012). *Response to the European Commission White Paper "An Agenda for Adequate, Safe and Sustainable Pensions*, EDHEC-Risk Institute, Nice, France.
- Andrews, D. & Oberoi, J. (2015). Home Equity Release for Long-Term Care Financing: An Improved Market Structure and Pricing Approach. *Annals of Actuarial Science*, Vol.9(1), pp. 85-107.
- Andrews, D. (2012). *Using Housing Wealth to Fund Long-Term Care*. Hong Kong, In International Actuarial Association Colloquium on The Actuarial Profession and Social and Economic Development, Hong Kong, May.
- Benito, A. (2009). Who Withdraws Housing Equity and Why?. *Economica*, Vol.76, pp. 51-70.
- Bergman, J. & Setterqvist, V. (2013). The Implementation of Reverse Mortgage in Sweden - A Financial Institution Perspective Authors, at: <https://www.diva-portal.org/smash/get/diva2:692825/FULLTEXT01.pdf>.
- Blok, S. (2015). Antwoorden op vragen van het CDA over verzilverd wonen. *Brief van de minister aan de Voorzitter van de Tweede Kamer der Staten-Generaal*. Den Haag: Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 15 september.
- Boelhouwer, P. & Schiffer, K. (2015). *Kopers verdienen meer! Naar een evenwichtige toepassing van de NIBUD-normen*. Delft: Technische Universiteit Delft.
- Bourse des crédits (2017). *Le Crédit Foncier lance un nouveau prêt viager hypothécaire pour financer les besoins des seniors*, Jacques-Olivier Busi, 21.3.2017, at <https://www.boursedescredits.com/actualite-credit-foncier-lance-nouveau-pre-viager-hypothecaire-financer-besoins-seniors-2516.php>; and Prêt viager hypothécaire, at <https://www.boursedescredits.com/guide-pre-viager-hypothecaire-1754.php>.
- Burns, F. (2014). The Evolving Statutory Regulation of Reverse Mortgages in Australia's 'Risk Society', *Monash University Law Review*, Vol.39(3), pp. 611-653.
- Banque (2010). *Prêt viager hypothécaire: une solution pour les propriétaires âgés en difficulté*, 25.5.2010 at <http://www.cbanque.com/actu/16769/pre-viager-hypothecaire-une-solution-pour-les-proprietaires-ages-en-difficulte>.
- CCPC (2016). *Equity Release Mortgage Products*, Available at: <http://www.consumerhelp.ie/equity-release-mortgage> [Accessed 10 Mar. 2016].
- CERMI (2013). *La hipoteca inversa, Guía informativa para uso de personas con discapacidad y sus familias*, Comité español de personas con discapacidad, June 2013.
- Chater N., Huck, S., Inderst R. (2010). *Consumer Decision-Making in Retail Investment Services: A Behavioural Economics Perspective*, Final Report to the European Commission No 22.
- Chavez Andersson, K. & Sandström, J. (2013). *Investigating a Psychological Perspective of Reverse Mortgage*, <http://www.diva-portal.se/smash/get/diva2:634359/FULLTEXT01.pdf>.

Chiuri, M.C., & Jappelli, T. (2010). Do the Elderly Reduce Housing Equity? An International Comparison, *Journal of Population Economics*, Vol.23, pp. 643-663.

CIH (2015). UK Housing Review 2015 Briefing Paper, *Chartered Institute of Housing*, [online] Available at: <http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/UKHR%20Briefing%202015.pdf> (Accessed: 3. March 2016).

Clark, G. L., Knox-Hayes, J., & Strauss, K. (2009). Financial Sophistication, Salience, and the Scale of Deliberation in UK Retirement Planning. *Environment and Planning A*, Vol. 41(10), pp. 2496-2515.

Clerc-Renaud, S., Neuberger, D., Dirk Ulbricht, D. (2018). Germany: Ageing Economy with Rising Pension Gap, Stable Mortgage Market and Well-developed Rental Market, in: Eckardt, M., Dötsch, J. & Okruch, S. (Eds.). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publish. Forthcoming.

CNB (2016). Financial Stability Report 2015/2016, *Czech National Bank*, at: https://www.cnb.cz/miranda2/export/sites/www.cnb.cz/en/financial_stability/fs_reports/fsr_2015-2016/fsr_2015-2016.pdf

Commons Library (2015a). Briefing Paper: Housing supply in 2015-2020: Key issues for the 2015 Parliament, *House of Commons Library*, <http://www.parliament.uk>.

Commons Library (2015b). The Economic Crisis: Policy Responses Standard Note: SN/BT/4968, *House of Commons Library*, <http://www.parliament.uk>.

Conrad, A. (2007). Das Konzept des Reverse Mortgage - Eine Alternative für Deutschland?, *Bank-Archiv: Zeitschrift für das gesamte Bank- und Börsenwesen*, Vol.55(8), pp. 631-642.

Consumer Financial Protection Bureau (2012). *Reverse mortgages. Report to Congress, U.S. Government*.

CSO (2016). Quarterly National Household Survey, Pension Provision, Statistical Release, Quarter 4 2015, May, *Central Statistics Office*, Cork, Ireland.

Cuerpo Caballero, C., Patarau, A. & Pontuch, P. (2014). II.2. Institutional Features and Regulation of Housing and Mortgage Markets, *Quarterly Report on the Euro Area*, Vol. 13, No. 2, pp. 27-33.

Davidoff, T. (2015). Can "High Costs" Justify Weak Demand for the Home Equity Conversion Mortgage?. *The Review of Financial Studies*, Vol. 28(8), pp. 2364-2398.

DB Research (2015). *Talking Point: Germany: Is Housing Policy Heading Towards the Precipice?*, October 7, 2015. (Führt die Wohnungspolitik an die Wand?).

Deaton, A. (2005). Franco Modigliani and the Life Cycle Theory of Consumption, *Research Program in Development Studies and Center for Health and Wellbeing*, Princeton University, NJ, USA.

Delaney, S., Cullen K. & Dolphin C. (2008). Housing with Care : a New Paradigm, *Work Research Centre*, Paper Presented at European Network for Housing Research Conference, UCD, Dublin, Ireland.

Department of Health (2013). *Positive Ageing Starts Now - National Positive Ageing Strategy*, Dublin, Ireland.

Dötsch, J., Eckardt, M. & Wagner, G. (2017). *Promoting Private Pensions and Homeownership by Fiscal Incentives and other Public Policies – an Overview of Six Countries*; Research Report to the European Commission, DG Employment, Social Affairs and Inclusion, Workstream 2.1.

Dötsch, J., Eckardt, M. & Megyeri, E. (2018). My Home is my Castle? Sustainability of Private Pensions and Private Homeownership in Hungary, in: Eckardt, M., Dötsch, J. & Okruch, S. (Eds.). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publish. Forthcoming.

- Doling, J. & Elsinga, M. (2013). *Demographic Change and Housing Wealth: Homeowners, Pensions and Asset-based Welfare in Europe*. Dordrecht, Heidelberg, New York, London: Springer.
- Dwyer, H. (2016). Regulation of Reverse Mortgages in Australia, *Briefing Paper*, November 2016, <http://dwyerharris.com/wp-content/uploads/2016/11/Regulation-of-reverse-mortgages-in-Australia.pdf> (01.12.2017).
- Eckardt, M. (2018). Personal Pensions and Homeownership in the EU – An Overview, in: Eckardt, M., Dötsch, J. & Okruch, S. (Eds.). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publ. (forthcoming).
- Eckardt, M., Dötsch, J. & Okruch, S. (Eds.) (2018). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publ. (forthcoming).
- Eckardt, M. & Okruch S. (2017). Personal Old-Age Provision and Private Homeownership: Life Cycle Patterns – *Research Paper, Workstream 2.2*, Research Project: Integrating Residential Property with Private Pensions in the EU.
- Elsinga, M. (2015). Changing Housing Systems and their Potential Impacts on Homelessness. *European Journal of Homelessness*, Vol.9, 1, pp. 15-35.
- ERC (2015a). Equity Release Market Report: Autumn 2015: *Equity Release Council* (ERC).
- ERC (2015b), Unlocking the Potential: The Future of Equity Release. London: *Equity Release Council* (ERC). At: <http://www.equityreleasecouncil.com/document-library/white-paper-unlocking-the-potential-the-future-of-equity/>.
- ERC (2017). *The Equity Release Council*. [Online] Available at: <http://www.equityreleasecouncil.com/consumer-information/what-is-equity-release/equity-release-plans/> [Accessed 08 11 2017].
- ERC (2015). Unlocking the Future: The Potential of Equity Release. London: *The Equity Release Council*.
- Estrada, J. (2016). The Retirement Glidepath: An International Perspective. *The Journal of Investing*, Vol. 25(2), pp. 28-54.
- European Central Bank (2003). *Structural Factors in the EU Housing Markets*. Frankfurt am Main.
- European Commission (2014). *Quarterly Report on the Euro Area*, Vol. 13, 2. http://ec.europa.eu/economy_finance/publications/qe_euro_area/2014/qrea2_en.htm (accessed June 16, 2016).
- European Commission (2015). The 2015 Ageing Report. Economic and Budgetary Projections for the 28 EU Member States (2013-2060), *European Economy*, Vol. 3, Luxembourg: Publications Office of the European Union.
- European Commission (2016a). European Economic Forecast. Winter 2016. *Institutional Paper 020*. February.
- European Commission (2016b). *Housing Markets in the EU*. http://ec.europa.eu/economy_finance/graphs/2016-02-11_housing_markets_en.htm (accessed June 13, 2016).
- European Commission/ EY (2017). *Study on the Feasibility of a European Personal Pension Framework*, Final report EY, FISMA/2015/146(02)/D, June 2017, DOI: 10.2874/342225.
- European Commission/ Social Protection Committee (2015a). *The 2015 Pension Adequacy Report: Current and Future Income Adequacy in Old Age in the EU*, Volume I, Joint Report Prepared by the Social Protection Committee (SCP) and the European Commission (DG EMPL), Luxembourg: Publications Office of the European Union.
- European Commission/ Social Protection Committee (2015b). *The 2015 Pension Adequacy Report: Current and Future Income Adequacy in Old Age in the EU, Country Profiles –*

Volume II, Joint Report Prepared by the Social Protection Committee (SCP) and the European Commission (DG EMPL), Luxembourg: Publications Office of the European Union.

European Mortgage Federation: Hypostat (2015). A Review of Europe's Mortgage and Housing Markets. Edited by Anderson, M.L. & Westig, D..

European Parliament (2014). *Pension Schemes*, Study for the EMPL Committee, Directorate-General for International Policies. Policy Department, Economic and Scientific Policy, IP/A/EMPL/ST/2103-07, PE 536.281, August 2014.

Eurostat (2015). *Romania*, țara cu cei mai mulți proprietari de locuințe din UE, 96,1% în 2014, 23.11.2015 at <https://www.agerpres.ro/economie/2015/11/23/romania-tara-cu-cei-mai-multi-proprietari-de-locuinte-din-ue-96-1-in-2014-12-55-59>.

FCA (2017). *Retirement Outcomes Review Interim Report MS16/1.2*. London: Financial Conduct Authority.

Fornero, E., Rossi, M. & Brancati, M.C. (2016). Explaining why, right or wrong, (Italian) households do not like reverse mortgages, *Journal of Pension Economics and Finance*, Vol.15 (2), pp. 180-202.

Fox O'Mahony, L. & Overton, L. (2015). Releasing Housing Equity in Later Life: Markets, Consumers and the Role of the State. *Law in Context*, Vol. 33(2), pp. 115-141.

Gary-Bobo Robert J., & Zaiem M. (2016). Intermediated Family Contracts, *Observatoire de L'Epargne Européenne*, Paris, France

GVH (2009). Gazdasági Verseyhivatal (Hungarian Competitio Authority): *Press release: Megtévészti igérek a HILD-től*. Budapest, 2nd September of 2009. Available at http://www.gvh.hu/sajtoszoba/sajtokozlomenyek/2009-es_sajtokozlomenyek/6016_hu_megtევszti_igeretek_a_hild_zrt-tol.html (Accessed: 12.04.2016).

Goodman, L. (2015). *A Review and Critique of the 2014 Actuarial Assessment of FHA's Mutual Mortgage Insurance Fund*, Washington: Urban Institute.

Haffner, M., Ong, R. & Wood, G. (2015). Mortgage Equity Withdrawal and Institutional Settings: an Exploratory Analysis of Six Countries, *International Journal of Housing Policy*, Vol. 15, No. 3, pp. 235-259.

Haffner, M., Van der Veen, M. & Bounjouh, H. (2014). National Report for the Netherlands. Delft: Delft University of Technology, Deliverable No. 3.2 for FP7 project TENLAW: *Tenancy Law and Housing Policy in Multi-level Europe* (grant agreement no. 290694).

Haffner, M. (2018). Dutch Pensions and Housing: Towards a Social Divide, in: Eckardt, M., Dötsch, J. & Okruch, S. (Eds.). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publish. Forthcoming

Haffner, M. E.A. & Boumeester, H.J.F.M. (2010). The Affordability of Housing in the Netherlands: An Increasing Income Gap Between Owning and Renting? *Housing Studies*, Vol.25, No. 6, pp. 799-820.

Haffner, M. & Heylen, K. (2014). *De verdeling van de woonsubsidies. Vlaanderen en Nederland vergeleken*, Leuven, Steunpunt Wonen, <https://steunpuntwonen.be/Publicaties/Aflaadbare-rapporten>; https://steunpuntwonen.be/Documenten/Onderzoek_Werkpakketten/WP7_De_verdeling_van_de_woonsubsidies._Vlaanderen_en_Nederland_vergeleken.

Haffner, M. & Winters, S. (2016). Homeownership taxation in Flanders: moving towards 'optimal taxation', *International Journal of Housing Policy*, Vol. 16, No. 4, pp. 473-490.

Hanna, S.D., Kim, K. T. & Chen, S.C.C. (2016). Retirement Savings. *Handbook of Consumer Finance Research*, Springer International Publishing, pp. 33-43.

Hanna, S., Zhang, L. & Kim, K.T. (2017). Do Worker Expectations of Never Retiring Indicate a Preference or an Inability to Plan? *Journal of Financial Counseling and Planning*, Vol. 28, forthcoming.

Harding, A. (1966). *A Social History of English Law*, 1966.

Hennecke, P., Murro, P., Neuberger, D. & Palmisano, F. (2017). Pensions and Housing Wealth - Quantitative Data on Market Conditions for Equity Release Schemes in the EU, *Thünen-Series of Applied Economic Theory*, No. 146, University of Rostock, Rostock, <http://hdl.handle.net/10419/170488>.

Hosty, G. M., Groves, S. J., Murray, C. A. & Shah, M. (2008). Pricing and Risk Capital in the Equity Release Market. *British Actuarial Journal*, Vol. 14(01), pp. 41-91.

HUD (2017). *U.S. Department of Housing and Urban Development. FHA Reverse Mortgages (HECMs) for Seniors*. [Online] Available at: https://www.hud.gov/program_offices/housing/sfh/hecm/hecmabou [Accessed 22 11 2017].

Hull, C. J. (2012). *Risk Management and Financial Institutions*. 3rd ed. New Jersey: John Wiley & Sons, Inc..

IFE (2016). *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund HECM Loans For Fiscal Year 2016*. U.S. Department of Housing and Urban Development, Washington: Integrated Financial Engineering.

IFoA (2014). *Lifetime Mortgages: A Good and Appropriate Investment for Life Companies with Annuity Liabilities*, UK: Institute and Faculty of Actuaries (IFoA).

IFoA (2016). *DP1/16: Equity Release Mortgages. IFoA Response to the Prudential Regulation Authority*, UK: Institute and Faculty of Actuaries.

IMF (International Monetary Fund) (2008). *World Economic Outlook: Housing and the Business Cycle*. Washington DC: International Monetary Fund.

Jácome, L.L. & Mitra, S. (2015). LTV and DTI Limits – Going Granular. *IMF Working Paper*. Monetary and Capital Markets Department. July 2015.

Jaiyawala, Y., Maher, J., Burke, R. & Byrne, S. (2018). Holding on and Letting Go in Ireland - Examining the Policy and Fiscal Environment for Supplementing Retirement Income from Residential Property, in: Eckardt, M., Dötsch, J. & Okruch, S. (Eds.). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publish. Forthcoming.

Kitchin, R., Hearne, R. & O'Callaghan, C. (2015). Housing in Ireland: from Crisis to Crisis, *National Institute for Regional and Spatial Analysis*, No 77, NUI Maynooth, Kildare, Ireland.

KSH (2015a). *Központi Statisztikai Hivatal. Az önkormányzatok ingatlanvagyon*a (Real Estate Property of the Municipalities in Hungary), Available at https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_zri001b.html (Accessed:11.07.2016).

KSH (2015b). *Központi Statisztikai Hivatal. Önkormányzati lakásgazdálkodás (1996–)* (Real Estate Management of Hungarian Municipalities), Available at https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_zrl001.html (Accessed:11.07.2016).

KSH (2015c). *Központi Statisztikai Hivatal. Szociális lakásgazdálkodás (2003–2015)* (Social Housing Management). Available at https://www.ksh.hu/thm/2/indi2_7_7.html (Accessed 3.4.2016).

KSH (2015d). *Központi Statisztikai Hivatal. (Methodological Documentation on the Statistics Regarding Municipal Real Estate Management)*, Available at http://www.ksh.hu/apps/meta.objektum?p_lang=HU&p_menu_id=1110&p_almenu_id=101&p_ot_id=100&p_obj_id=ZRL&p_session_id=49744553 (Accessed 3.4.2016).

KSH (2016). *Központi Statisztikai Hivatal. Statisztikai tükör*. Lakáspici árak, lakásárindex, 2015., III negyedév. Január 29.

LaPorta, R. et al. (1999). The Quality of Government, *Journal of Law, Economics and Organization*, Vol.15, pp. 222-279. Available at:

<http://scholar.harvard.edu/shleifer/publications/quality-government> [Accessed 20.12.2014].

Larragy, A. (2013). A Universal Pension for Ireland, *Social Justice Ireland Policy Research Series*. Dublin: Social Justice Ireland. Available at: <http://www.socialjustice.ie/sites/default/files/attach/publication/2899/2013-09-16-auniversalpensionforireland-finalfinal.pdf> [Accessed 20 Feb. 2016].

Le Figaro (2007). Réversimmo, le premier prêt viager hypothécaire, 1.9.2017, at http://leparticulier.lefigaro.fr/jcms/c_41503/reversimmo-le-premier-pret-viager-hypothecaire.

Li, J. S.-H., Hardy, M. R. & Tan, K. S., (2010). On Pricing and Hedging the No-Negative-Equity Guarantee in Equity Release Mechanisms. *The Journal of Risk and Insurance*, 77(2), pp. 499-522.

Lyons, R.C. (2015). Housing Supply in Ireland Since 1990: the Role of Costs and Regulation, *Barrington Lecture*, Trinity College Dublin & Spatial Economics Research Centre, Dublin, Ireland.

Maier, A. (2011). *Home Reversion und Reverse Mortgage: Ein Beitrag zur Erklärung der Nachfrage nach Immobilienverzehrprodukten in Deutschland* (Home Reversion and Reverse Mortgage: A Contribution to Explaining the Demand for Home Ownership Release Schemes in Germany), Cuvillier Verlag, Göttingen.

Maier, A. & Johansen, K. (2012). Home Reversion. Innovatives Finanzprodukt in Deutschland – Zielgruppenanalyse, Bewertung und strategische Implikationen, *Banken und Sparkassen*, No. 03, pp. 34-35.

McCarthy, Y. & McQuinn, K. (2014). Consumption and the Housing Market: An Irish perspective, *Budget Perspectives Series*, Paper 1, Economic and Social Research Institute, Dublin, Ireland.

McGauran, A.M. & O'Connell, L. (2014). Review of Irish Social and Affordable Housing Provision, *National Economic & Social Council*, No 10, July, Dublin, Ireland.

Megyeri, E. (2018). Old-Age Poverty and Residential Property in the EU – An Analysis with the EU-SILC 2014 Data, in: Martina Eckardt, Jörg Dötsch, Stefan Okruch (Eds.): *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publ. (forthcoming).

Miles, D. & Sefton, J. (2017). *Houses Across Time and Across Place*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2992533

Moneyfacts (2017). *Equity Release Market Hits New Record*, 12.01.2017. <https://moneyfacts.co.uk/news/retirement/equity-release-market-hits-new-record/> (10.05.2017).

Morley, C., Duffy, D. & McQuinn, K. (2015). A Review of Housing Supply Policies, *Quarterly Economic Commentary*, Winter Issue, Economic & Social Research Institute, Dublin, Ireland.

Moscarola, F.C., d'Addio, A.C., Fornero, E. & Rossi, M. (2015). Reverse Mortgage: a Tool to Reduce Old Age Poverty without Sacrificing Social Inclusion, in: Börsch-Supan, A., Kneip, T., Litwin, H., Myck, M. & Weber, G. (Eds.). *Ageing in Europe - Supporting Policies for an Inclusive Society*, De Gruyter publ., pp. 235-244.

Moulton, S., Haurin, D.R. & Shi, W. (2015). An Analysis of Default Risk in the Home Equity Conversion Mortgage (HECM) Program. *Journal of Urban Economics*, Vol. 90, pp. 14-34.

Munnell, A.H. & Sass, S.A. (2014). The Government's Redesigned Reverse Mortgage Program. *Center for Retirement Research at Boston College*, Vol. 14(1), pp. 1-6.

Murro, P. & Palmisano, F. (2018). Italy: an Ageing Country, with Low Level of Private Pension Schemes but a High Home-ownership Rate, in: Eckardt, M., Dötsch, J. & Okruch,

S. (Eds.). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publish. Forthcoming.

Nakajima, M. & Telyukova, I.A. (2017). Reverse Mortgage Loans: A Quantitative Analysis. *The Journal of Finance*, Vol. 72(2), pp. 911-950.

New York Times (2017). *Two Senators Question Effects of Reverse Mortgage Proposals*, Matthew Goldstein, 8.8.2017, at: <https://www.nytimes.com/2017/08/08/business/dealbook/reverse-mortgage-surviving-spouse.html?mcubz=3>

Nivakoski, S. & Barrett, A. (2012). *Supplementary Pensions and the Income of Ireland's Retirees*, The Irish Longitudinal Study on Ageing, Trinity College, Dublin Ireland

Norman, D. (2013). *The Design of Everyday Things*, The MIT Press, Massachusetts, USA.

Norris, M. (2013). Varieties of Home Ownership: Ireland's Transition from a Socialised to a Marketised Policy Regime, Geary Institute, *Working Paper* No 06, University College Dublin, Ireland.

OECD (2005a). *Pensions at a Glance: Public Policies across OECD*, Paris: OECD Publishing.

OECD (2005b). *Private Pensions: OECD Classification and Glossary*, Paris: OECD Publishing.

OECD (2013). *Pension at a Glance 2013. OECD and G20 Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2013-en.

OECD (2014). *OECD Reviews of Pensions Systems: Ireland*, OECD Publishing. <http://dx.doi.org/10.1787/9789264208834-en>

OECD (2015a). *Pension at a Glance 2015. OECD and G20 Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2015-en.

OECD (2015b). *Stocktaking of the Tax Treatment of Funded Private Pension Plans in OECD and EU Countries*, OECD, <http://www.oecd.org/daf/fin/private-pensions/Stocktaking-Tax-Treatment-Pensions-OECD-EU.pdf>.

OECD (2105c). *Country Profiles to OECD (2015b): Stocktaking of the Tax Treatment of Funded Private Pension Plans in OECD and EU Countries*, OECD, <http://www.oecd.org/daf/fin/private-pensions/tax-treatment-pensions-country-profiles.pdf>.

OECD (2016). *Pensions Indicator Databank*, available at http://stats.oecd.org/Index.aspx?DatasetCode=PNNI_NEW.

Ong, R., Haffner, M., Wood, G., Jefferson, T. & Austen, S. (2013). Assets, Debt and the Drawdown of Housing Equity by an Ageing Population. *AHURI Positioning Paper* (153), pp. 1-92.

ONS (2014). *Trends in the United Kingdom Housing Market*, Office for National Statistics, <http://www.ons.gov.uk/>.

Overton, L. (2010). *Housing and Finance in Later Life: A Study of UK Equity Release Customers*, London: Age UK.

Overton, L. & Fox O'Mahony, L. (2015). *The Future of the UK Equity Release Market: Consumer Insights and Stakeholder Perspectives*, London: The Leverhulme Trust.

Oxera (2014). The Retirement Income Market. *Comparative International Research*. Paper Prepared for Financial Conduct Authority, September 2014, www.oxera.com.

Oxford Economics (2013). *The impact of Equity Release on Pensioner Income and the Wider Economy*, A Report for Just Retirement, February 2013, Oxford.

Pacella, C. (2016). Over 60 Market in Italy and Home Equity Release Mortgages Potential under New Law, *65plus*, Milan, April 2016.

Parker, S. (2015). *A Case Study of an Irish Success Story in the Field of Ageing*, Ageing Well Network, Dublin, Ireland.

Perez Carrillo, E.F. (2013). Servicios financieros de liberación de activos inmobiliarios como complemento a la pensión de jubilación: marco jurídico en los Estados de la Unión Europea, in: Alberto Muñoz, F. (coordinador). *El cuidado de las personas dependientes ante la crisis de Bienestar*, Valencia, Tirnat lo Black, pp. 327-346.

Pfau, W. (2016). Reverse Mortgages - How to Use Reverse Mortgages to Secure your Retirement, *Retirement Researcher*, VA, USA.

Puro (2013). *100 Social Innovations from Finland*, Ilkka Taipale (ed), Finnish Literature Society Helsinki, Finland.

Quilgars, D., Elsinga, M., Toussaint, J., Ruonavaara, H. & Naumanen, P. (2008). Inside Qualitative Comparative Research: Making Methods Transparent. *International Journal of Social Research Methodology*, Vol. 11(4), pp. 1-11.

Rasmussen, D., Megbolugbe, I., Morgan, B. (1995). Using the 1990 Public Use Microdata Sample to Estimate Potential Demand for Reverse Mortgage Products, *Journal of Housing Research*, Vol. 6(1), pp. 1-23.

Reifner, U., Clerc-Renaud, S., Pérez-Carrillo, E.F., Tiffe, A. & Knobloch, M. (2009a). *Study on Equity Release Schemes in the EU, Part I: General Report*, Project No. MARKT/2007/23/H, institut für Finanzdienstleistungen e.V., Hamburg. http://ec.europa.eu/internal_market/finservices-retail/docs/credit/equity_release_part1_en.pdf.

Reifner, U., Clerc-Renaud, S., Pérez-Carrillo, E.F., Tiffe, A. & Knobloch, M. (2009b). *Study on Equity Release Schemes in the EU, Part II: Country Reports*, Project No. MARKT/2007/23/H, institut für Finanzdienstleistungen e.V., Hamburg.

Ronald, R. & Doling, J. (2012), Testing Home Ownership as the Cornerstone of Welfare: Lessons from East Asia for the West, *Housing Studies*, Vol. 27(7), pp. 940-961.

Sass, S.A. (2017). *Is Home Equity an Underutilized Retirement Asset?*, Center for Retirement Research, No 17-6, Boston College, MA, USA.

Savills (2017). Residential Report 2017, *Savills World Research*, Ireland Investment, April 2017, <http://pdf.euro.savills.co.uk/ireland-research/resi-report-2017.compressed.pdf> (18.04.2017)

Sawady, E.R. & Tescher, J. (2008). *Financial Decision Making Processes of Low-Income Individuals*, Joint Center for Housing Studies Harvard University, Boston, MA, USA.

Scanlon, K. & Elsinga, M. (2014). Policy Changes Affecting Housing and Mortgage Markets: How Governments in the UK and the Netherlands Responded to the GFC, *Journal of Housing and the Built Environment*, Vol. 29, pp. 335-360.

Schneider, M. & Wagner, K. (2015). Housing Markets in Austria, Germany and Switzerland, *Monetary Policy and the Economy*, Austrian Central Bank, Q1/2015, pp. 42-58.

Schröder, L. (2011). *Trend: Reverse Mortgage in Deutschland*, <https://www.der-bank-blog.de/trend-reverse-mortgage-deutschland/retail-banking/820/> (13.01.2017).

Schwartz, H. & Seabrooke, L. (2008). Varieties of Residential Capitalism in the International Political Economy: Old Welfare States and the New Politics of Housing, *Comparative European Politics*, Vol. 6, pp. 237-261.

Schwartz, H. & Seabrooke, L. (2009). *The Politics of Housing Booms and Busts*. Basingstoke.

Shao, A. W., Hanewald, K. & Sherris, M., (2015). Reverse Mortgage Pricing and Risk Analysis Allowing for Idiosyncratic House Price Risk and Longevity Risk. *Insurance: Mathematics and Economics*, Vol. 63, pp. 76-90.

Sharma, T., McKillop, D. & French, D. (2018). Pensions, Housing and Mortgage Markets in the United Kingdom, in: Eckardt, M., Dötsch, J. & Okruch, S. (Eds.). *Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options*, Springer publish. Forthcoming.

Shier, Ph. & Lalor, S. (2012). European Pensions Policy & Regulation, Irish Institute of Pensions Management, *Lecture*, National College of Ireland, Dublin, Ireland.

Taskforce Verzilveren (2013). *Eigen haard is zilver waard. No city of publication: Taskforce Verzilveren* <http://www.paultang.nl/2/geen-categorie/eindrapport-taskforce-verzilveren-2/>.

The Actuarial Profession (2005). *Equity Release Report 2005*, Volume I: Main Report, Institute of Actuaries, Oxford.

The Royal Hospital Kilmainham (2016). *Housing for Older People – Thinking Ahead*, Research Report by O'Neill, G., Amarach Research, with Lyons, R. (TCD), Dr Lorcan Sirr (DIT) and Keith Finglas Innovation Delivery, 12 October 2016, available at: <https://www.housingagency.ie/getattachment/Our-Publications/Latest-Publications/Report-Housing-for-Older-People-Thinking-Ahead-%281%29.pdf>.

Tiffe, A. (2007). Reverse Mortgage - Marktchancen, Kundenwünsche und Gestaltung. *Immobilien & Finanzierung*, Ausgabe 17, pp. 586 - 290, <http://www.immobilienzverzeehr.de/upload/pdf/Tiffe.pdf>.

Toussaint, J. & Elsinga, M., (2009). Exploring "Housing Asset-Based Welfare": Can the UK be Held up as an Example for Europe?, *Housing Studies*, Vol. 24(5), pp. 669-692.

Towers Watson (2013). *Equity Release - Accessing Housing Wealth in Retirement*, London, UK.

Tsatsaronis, K. & Zhu, H. (2004). What Drives Housing Price Dynamics: Cross-country Evidence, *BIS Quarterly Review*, March, pp. 65–78.

Urs, I. (2015). *Drept civil. Contractele speciale*, Universul Juridic Publishing House, Bucharest, p.352-368.

Van den Noord, P. (2005). Tax Incentives and House Price Volatility in the Euro Area: Theory and Evidence, *Économie internationale*, No. 101, pp. 29-45.

Venti, S.F. & Wise, D.A. (1991). Aging and Income Value of Housing Wealth, *Journal of Public Economics*, Vol. 44(3), pp. 371-397.

Wesierski, B. (2009). *Die Förder-Immortente stellt sich vor*, 4. Demographie-Kongress „Best Age“, 1./2. September 2009, Bundesverband Öffentlicher Banken Deutschlands, VÖB.

Working Party on Private Pensions (2014). *Project on Financial Incentives and Retirement Savings*, DAF/AS/PEN/WD(2014)11, OECD, 22-May-2014, <http://www.americanbenefitscouncil.org/pub/e6166cf0-edf7-0f6f-3aa9-ac15cec96c72>.

World Bank (1994). *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, Washington, DC: World Bank.

11 ANNEX

See separate Annex file to this Final Report containing summary of meetings and focus groups, conference report, methodology guidelines and questionnaires, and additional material and papers produced.