

# TITLE: HOW DO SENIORS CONCEPTUALISE THE UTILITY FUNCTIONS OF HOME AND THE MENTAL ACCOUNTS ATTACHED TO HOME EQUITY? - **A PILOT STUDY**

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# The Agenda

- Introduction
- Research Problem
- Literature Review
- Research Question
- Method
- Preliminary Findings



2004 Study :  
Financing Ageing in 2050



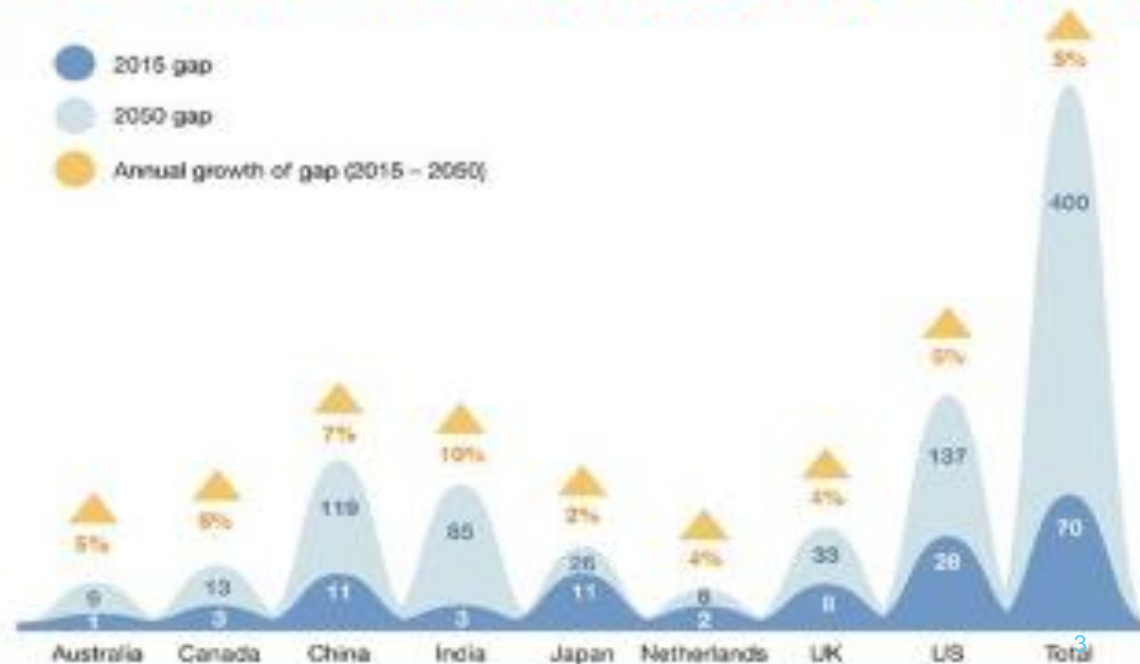
**October 8, 2020 Budget  
Defence:** “the savings people have put  
into their family home .... That's a really  
innovative and very inexpensive way of adding  
to their income ”

# Introduction

## Ageing population with insufficient retirement funds (potentially)

- A\$11.6trn (est.) retirement savings gap in Australia in 2050
- A\$1 trn (est.) in seniors' home equity in 2020
- > 90% of seniors desire to age in place

Chart 1: Size of retirement savings gap (US\$ trillions, 2015)



Source: Mercer analysis, 2017

# Financing Ageing in Place: Key Findings

**93%**  of older Australian homeowners' ideal is to remain in home ownership.

**90%**  of older Australians say they wish to age in place - that is, to remain in their current home compared with moving into specialised care, or moving at all.

**87%**  of those aged 65-74 want to stay where they are, or within 10km of their current home.

**36%**  of seniors live in a home that may be unsuitable for ageing in place, without upgrades or renovations.

**29%**  of seniors say they will not be able to afford the changes required to make their home age friendly approximately.

**1/4**  respondents believed they could afford the costs of aged care

**vs. 40%**  respondents simply did not know whether they could afford aged care costs in the future.

The most popular purpose for a reverse mortgage using Heartland data:

**43%**  Home improvements

**vs. 31%**  Payment of existing debt

Increasing to **50%+**  in more recent years.

The most common changes needed in people's homes were:

**65%**  handrails

**57%**  Wet area modifications (toilet/bath/laundry)

**51%**  ramps

Source: <https://www.seniorsfinance.com.au/reverse-mortgage-news/reverse-mortgages-a-solution-to-financing-retirement>, accessed and downloaded on 1 December 2020

# Introduction

The family home is an underutilised source to support living standards in retirement – accessing equity in the home can significantly boost retirement incomes without the need for additional contributions.” *(The Australian Government the Treasury, Retirement Income Review Final Report July 2020)*

Accessing home equity to facilitate ageing in place decreases fiscal burden, satisfies desires of seniors, increases well-being of seniors and spurs economic activities. <sup>5</sup>

(James et al. 2019; Desa 2019; Cryer et al. 2012)

# Definition of Home Equity Release

Financial products that enable people to unlock a lumpsum or a stream of income from the home WHILE continuing to stay in the same house.

- Continue staying in home till end of life or sale of house
- Typically lump-sum
- Sale of a portion of house at discounted price. Proceeds of that portion of house will go to financier upon eventual sale of house
  
- Private arrangements such as renting out a room or staying with family in order to collect rent from primary home, etc.



- Continue staying in home till end of life or sale of house
- Lump-sum or Line of credit or income stream
- Interests accrue on loans with no repayment till sale of house
  
- Sell house to purchase another of lower value
- No longer staying in the same home

# The PROBLEM

- The majority of retirement wealth is accumulated in their residential home (Haurin & Moulton 2017; Hurst & Stafford 2004; Kaul & Goodman 2017)
  - Use of housing wealth could offset inadequate retirement savings and support greater wellbeing outcomes.
  - Housing wealth is not decumulated as Life Cycle Theory predicts
- AIM : This study aims to extend insights into the mental accounting seniors engaged while managing home equity.

# Brief Themes in Current Literature:

Underlying Theory	<b>Life Cycle Theory</b>	Theme 1	<b>Almost all seniors desire to Age-in-Place when an option is available</b>
Theme 2	<b>Ageing in Place is healthier and less costly for both individuals and government</b>	Theme 3	<b>Large amount of home equity are currently locked up despite availability of RM</b>
Theme 4	<b>Unlocking Home Equity efficiently will improve well-being of individuals and government</b>	Theme 5	<b>Current Home Equity Release Market Faces Both Demand Challenges and Supply Constraints</b>



# Literature Review : Theories & Concepts

Modigliani's Life Cycle Theory (Modigliani & Brumberg 1954)	It predicts that people save during years of earning active income and consume their savings after retirement, a behaviour now commonly known as 'consumption smoothing'. The theory is important to this thesis as it is the underlying thesis used either explicitly or implicitly by all retirees' home equity consumption literature.
Fisher's Intertemporal Choice Theory (Fisher 1930)	Fishers' theory of intertemporal choice explains trade-off decisions between current and future consumption of rational individuals and is a key underlying economic assumption used in the Life Cycle Theory. In Fishers' theory, preference for current income over future income increases with decreasing income.
<u>Shefrin</u> and Thaler's Behavioral Life Cycle Theory (Shefrin, HM & Thaler 1988)	Behavioral Life Cycle Theory's (BLCT) main deviation from Modigliani's Life Cycle Theory is that assumption of nonfungibility of wealth.
Thaler's Mental Accounting concept (Thaler 1999)	Mental accounting is "... the set of cognitive operations used by individuals and households to organize, evaluate, and keep track of financial activities"

# Key findings from literature review (theory-centric):

1. Wealth dissaving/decumulation does not seem to occur in old age as predicted by the Life Cycle Theory (LCT).
2. Extensions of LCT, suggest that mental accounting and non-fungibility of wealth across these accounts could be an explanation.
3. Further research needed in this area in relation to understanding patterns of wealth decumulation among retirees.

# Key findings from literature review (empirical-centric):

1. Retirees is a highly heterogenous population in their circumstances and behaviours.
2. More than 80% of literature surrounds studies of reverse mortgages loans.
3. Seniors appear to view home equity as serving three primary uses - (a) as a consumption good (b) for 'precautionary savings', i.e. as an insurance good and (c) as an investment.
4. Further research needed to help in understanding how to unlock home equity in old age to aid in solving the Retirees' Home Equity Release Puzzle.

# Seniors' home utility concepts and their mental accounts attached to home equity.

## Research Design/ Philosophy

### Qualitative Semi-structured Interviews, Grounded Theory Method Approach

## Target Participants/ Study Period

Target Group 1: Australian homeowners aged 65 years and older in 2021 and 2022

Target Group 2: Professional service providers involved in advising retirement planning and/or usage of home equity

Quota Sampling; 9-12 months period

## Data Collection

### Pilot test

- Sample questions test set from LR themes
- Interview 2 sets of 10 willing test subjects

### Interviews

- Refine questions and review themes
- Interviews (Australian Homeowners and Professional service providers)

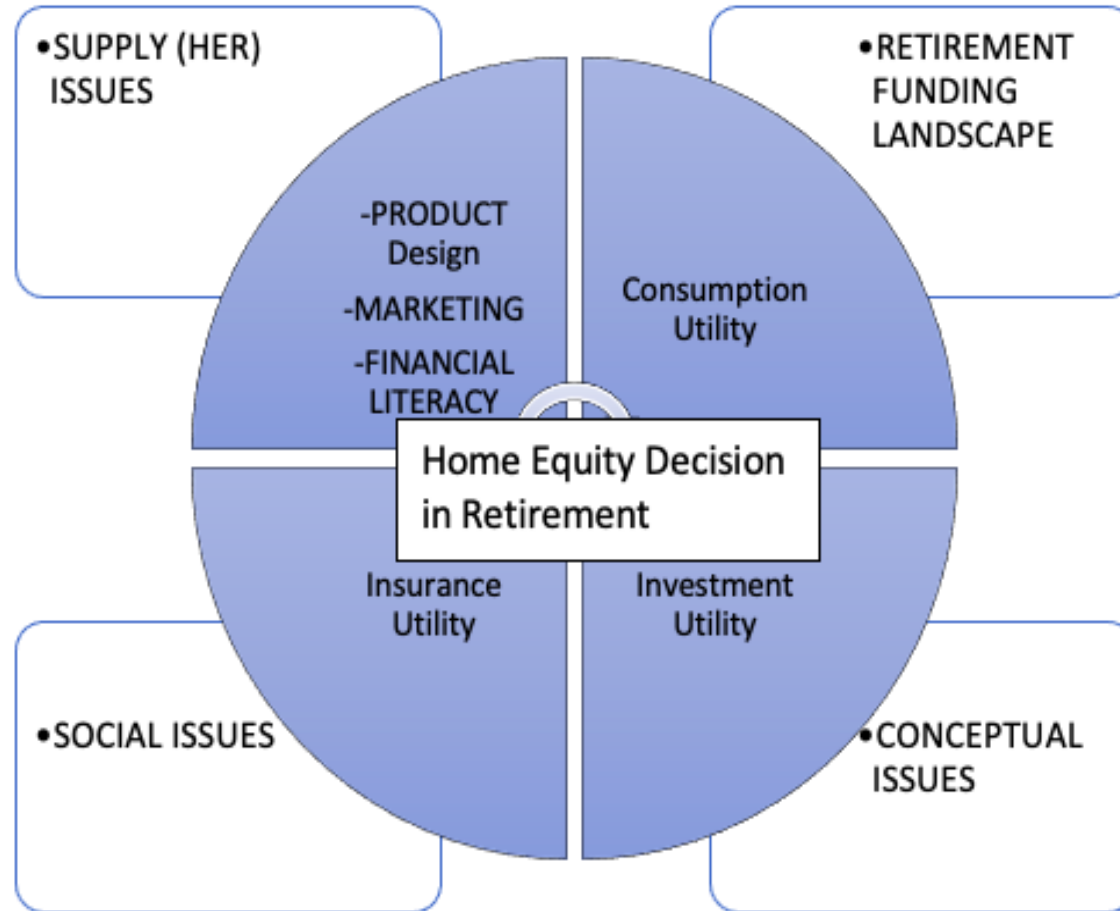
## Analysis

Coding and analyzing data using line-by-line method followed with using Nvivo for the eventual larger sample

Apply thematic analysis via inductive and deductive approaches across findings to refine and/or review themes

# First Sensitising Mechanism From Pilot Study:

## Sensitising device



Source: Author's illustration

## **Category 1**

How does home equity contribute to your overall retirement financial plan? / Observations on the usage of home equity as part of financial retirement planning.

### **Initial Codes**

- 1. Last resort;**
- 2. Insurance;**
- 3. Home consumption;**
- 4. Unaware of home equity;**
- 5. Sticky home equity**
- 6. Gender difference - 'Home is a man's castle' (achievement); social connectivity trumps home equity; Man unwilling to tap home equity; mothers want to use it to 'redeem' sacrifices**
- 7. Mental blocks - debt aversion; valuation mis-match**

## **Category 2**

**Product design from homeowners' perspective and financial advisers' perspective.**

### **Initial Codes**

- 1. Openness increase with 'new' product designs - designs include double/ triple usage of home equity.**
- 2. Would like product to include e.g. term insurance - e.g. 'like to know say there will be some money left for the kids when I am gone but they (financial institution) can take the house.'**
- 3. Would like product to include e.g. healthcare insurance or hospitalisation insurance.**
- 4. 'Just the cash alone is not a huge motivator unless I really need it', 'maybe kids need it' 'maybe health issues but if it is so bad, then I rather go instead of suffer in pain, told my kids that.'**
- 5. Mixed findings from financial advisers - 4 said alternative products would likely to receive higher take-up rate, 1 said best to keep product unbundled.**

### Category 3:

Changes as a result from the pandemic – COVID 19:

Have you observed a change in INTERESTS and/or ATTITUDES towards using home equity since COVID?  
Have the pandemic strengthen or weaken your feelings/ thoughts about using home equity?

### Initial Codes

- 1. Pandemic disrupted previous contentment with house.**
- 2. Stronger desire to stay in place and enjoy the house in later years of life.**
- 3. Increase in openness to changing state of house to be 'pandemic-friendly'.**
- 4. Re-considerations on ageing in institutions.**
- 5. Slight increase in openness in engaging home equity.**
- 6. Health concerns.**
- 7. Importance of familial connections.**



# NEXT STEP

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- 1. Welcome all constructive feedback to increase efficacy of study.**
- 2. Integrate feedback and refine questions.**
- 3. Launch full interviews with refined questions.**
- 4. Analysis of data.**
- 5. Presentation of final results.**



**Thank  
You!!**



# DISCUSSIONS & QUESTIONS