

Optimal Use of Housing Wealth in a Two-Generation Model



Katja Hanewald, Scott (Zilin) Shao and Hazel Bateman

UNSW Sydney, School of Risk & Actuarial Studies

Australian Research Council Centre of Excellence in Population Ageing Research (CEPAR)

CEPAR Longevity Risk Workshop 2023

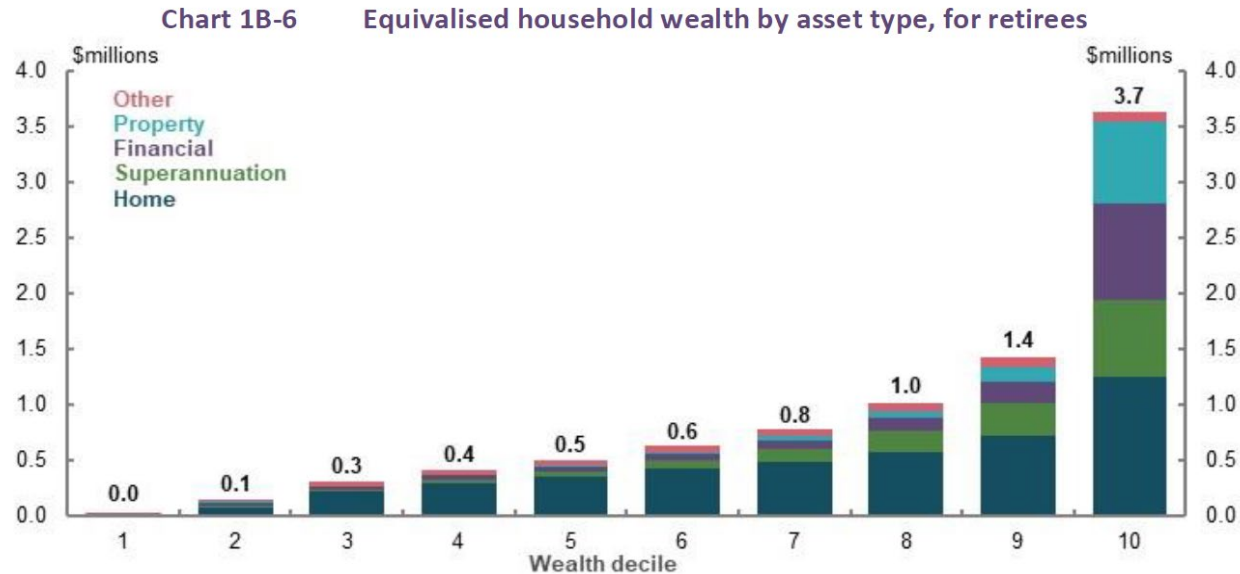
18 July 2023



UNSW
SYDNEY

Motivation

- **Housing wealth:** largest component of Australian household wealth



Source: Australian Treasury, 2020 p.83

- Home equity release available in Australia:
 - Reverse mortgages, Home Equity Access Scheme, home reversion) available

- Economic theory: reverse mortgages can be welfare-enhancing for retirees (e.g., Davidoff, 2015; Hanewald et al., 2016; Shao et al., 2019)
- However, **reverse mortgage take-up is limited**
- **Bequest motives** often cited as one reason for the low take-up rate

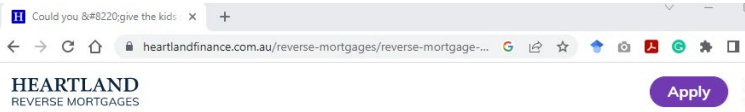
Should bequest motives be a concern?

- Reverse mortgages can bring forward bequest and reduce timing uncertainty

‘Bank of Mum and Dad’: 9th-largest mortgage lender

- Parents gift their children using their **financial assets**, yet few use their housing wealth

Can you use RMs to give to kids?



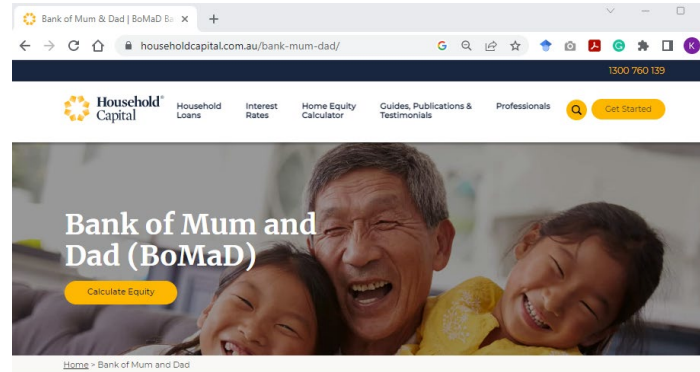
Could you “give the kids some of their inheritance now” with a reverse mortgage?

19 January 2018



As property prices rise in Australia, there is a great amount of difficulty for first home buyers being able to afford to purchase, with one of the major obstacles being saving for the deposit and property expenses required to get on the ladder.

Many parents and grandparents may wish to help their children can't because of a lack available funds. However, there is not a lack of assets – a recent [study by Griffith University](#) has shown that 63% of Australian beneficiaries are likely to receive more than \$100k out of the estates of their parents. This was wealth held in assets like property and super, which could help with the home ownership dilemma



What is The Bank of Mum And Dad or BoMaD?

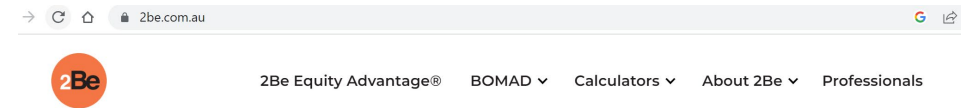
Many customers tell us how they wish they could do more for their kids and grandkids. Whether it's to pay for educational expenses, help out with mortgage payments or contribute to a first home buyers deposit, many want to be the 'bank of mum and dad' and give to their family.

Typically funds are drawn from savings, with some dipping into their superannuation, often depleting long term retirement funding.



It's As Easy As 1, 2, 3!

- 1. CONFIRM ELIGIBILITY**
Use our [online calculator](#) to see your accessible *Household Capital*.
- 2. PERSONAL CONSULTATION**
Experience one-on-one personalised service with a retirement specialist.
- 3. APPLICATION**
We guide you through every step of the application process.



Use the equity in your home to your advantage

At 2Be, we help Australians between the ages of 55 and 75 use the equity in their home to help children onto the property ladder, fund home renovations, pay for grandkids' education, travel, buy a new car or motor home, pay for medical expenses and more.

No proof of income required.
Your money. Your choice.

[Calculate your Financial Firepower](#)



This paper

Research questions:

1. Explore if reverse mortgages can **benefit families' financial planning**
2. Study reverse mortgage strategies that allow **families** to make optimal use of housing wealth
3. Study different product designs and policy settings

Modelling contribution:

- New multi-period simulation model for two generations
- Model reflects Australian institutional setting
- Model accounts for the welfare gains of both parents and children
- Compare different approaches to intergenerational transfers: bequest and gifting

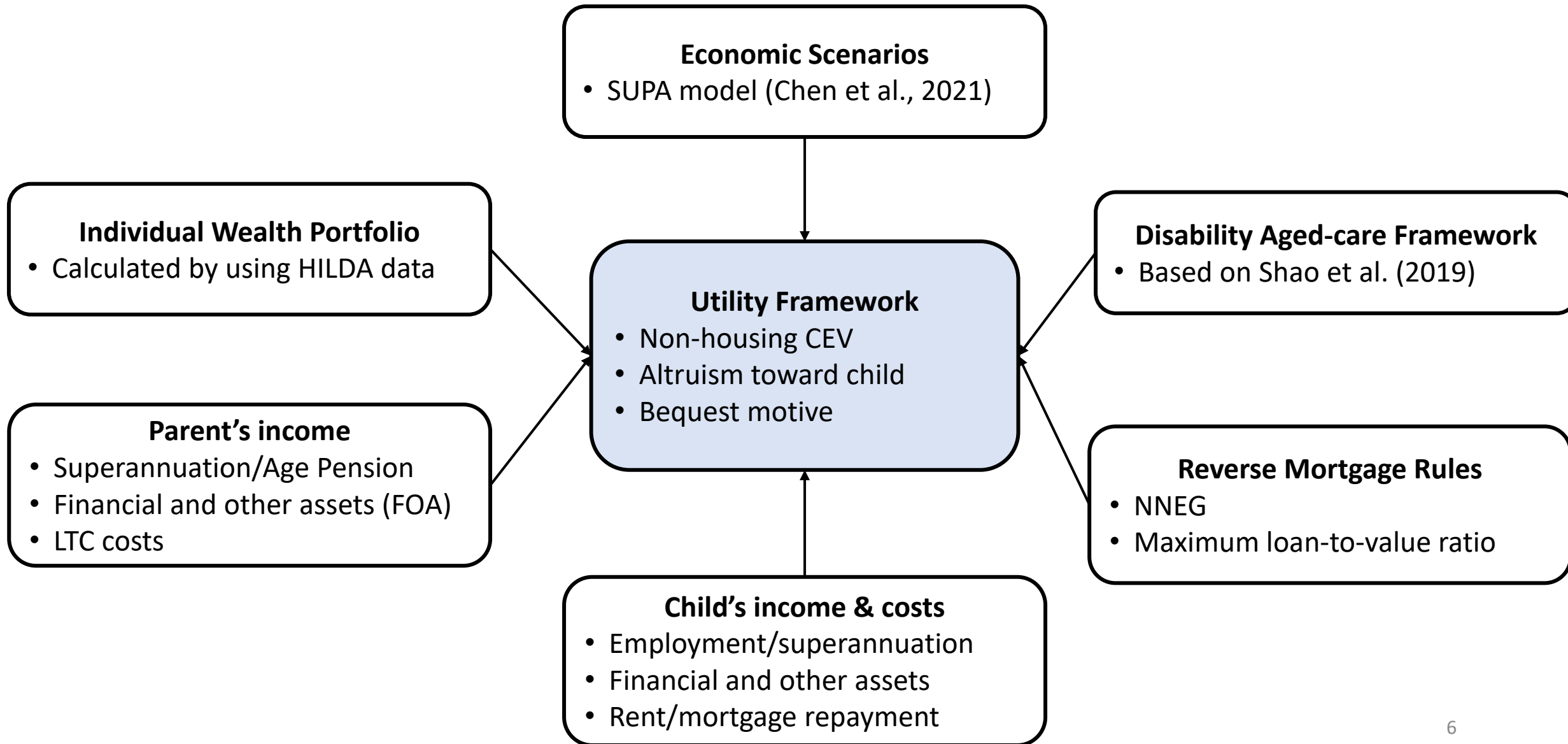


Model timing and structure

Time	Parent retires	Parent alive	Parent dies	Child retires	Child dies
Parent	<ul style="list-style-type: none"> • Age 67, good health • Owns home, super, FOA • Can receive Age Pension • <u>Decisions:</u> <ul style="list-style-type: none"> ○ Reverse mortgage Y/N? ○ Gift child Y/N? 	<ul style="list-style-type: none"> • Interest rate risk, inflation, house price risk • Aged care risk & cost 	<ul style="list-style-type: none"> • RM settled, bequeath net assets 		
Child	<ul style="list-style-type: none"> • Age 36 • Works, earns a wage • No RM: no house, rent • With RM: house with mortgage 	<ul style="list-style-type: none"> • Works, earns wage • Rent/mortgage 	<ul style="list-style-type: none"> • No RM: inherit house, super, FOA • With RM: inherit parent's net assets 	<ul style="list-style-type: none"> • Owns house, super, FOA • Can receive Age Pension 	<ul style="list-style-type: none"> • Bequeath net assets

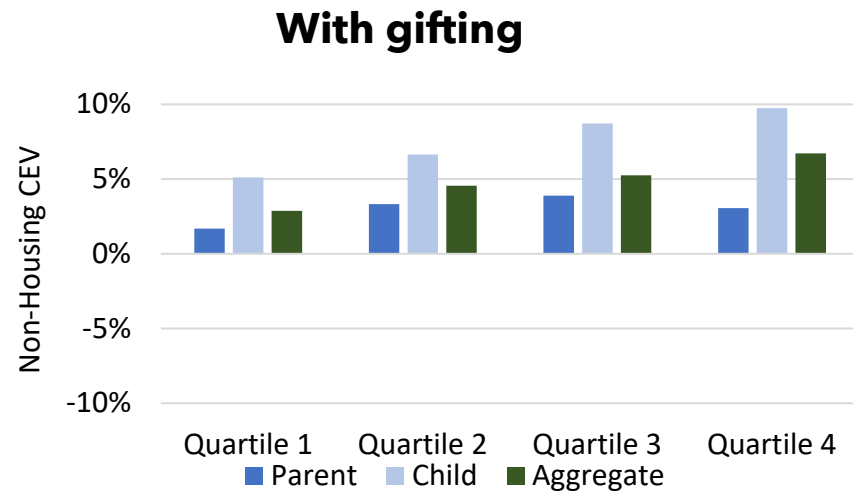
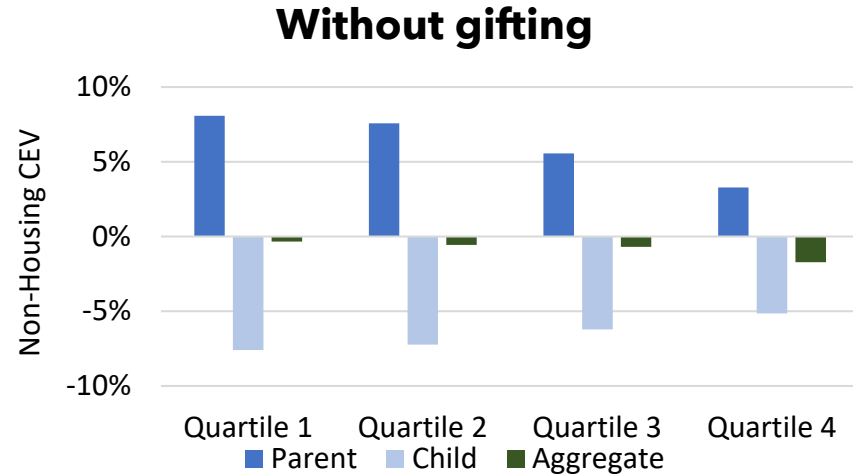


Model components

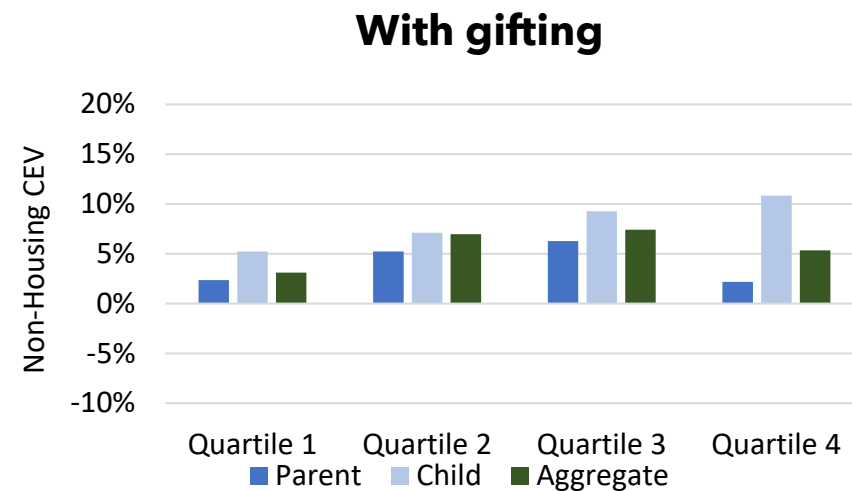
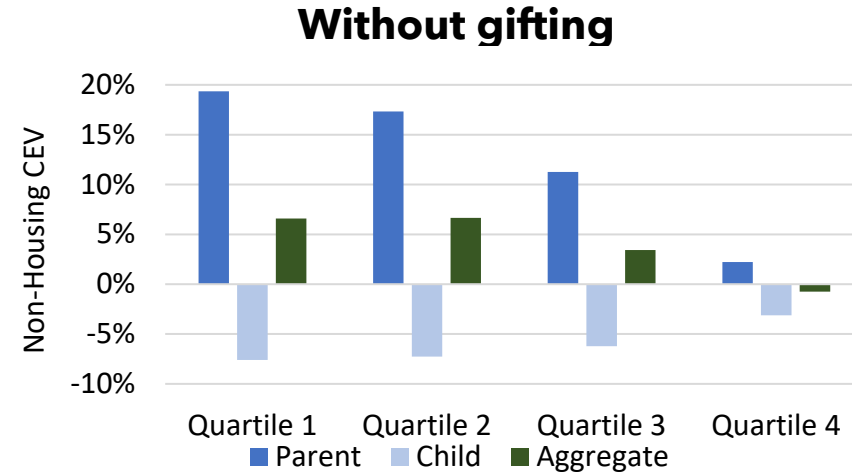


Scenarios

Scenario 1 – Maximum lump sum



Scenario 2 – Withdraw annually to achieve ASFA Comfortable Retirement Standard



Product Design Experiments

Scenario 3 – Lower interest rate if the child makes repayment on both home loan and RM

Assumption:

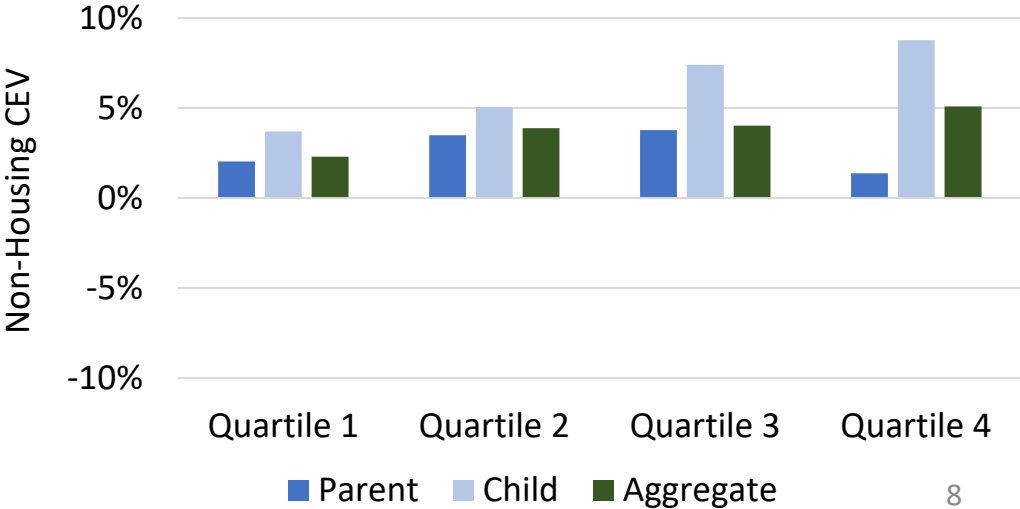
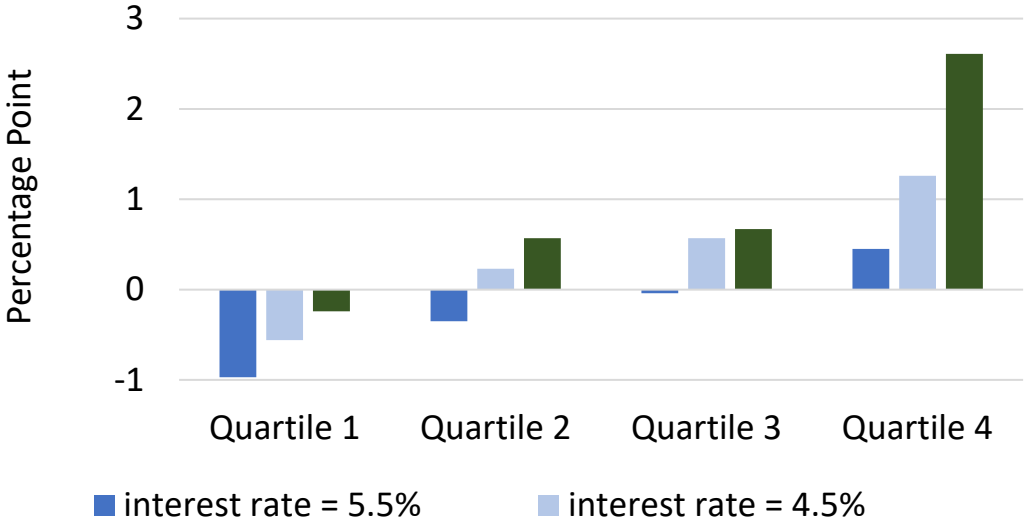
- Amount borrowed from the RM = the child’s home deposit and is gifted

Scenario 4 – Increase the loan-to-value ratio

Assumptions:

- Parent borrows max. lump sum, gifts the child
- Increase the maximum LVR by 10 pp
- Increase RM rate by 2 pp

Percentage Point Change of **Aggregate** Non-housing CEV



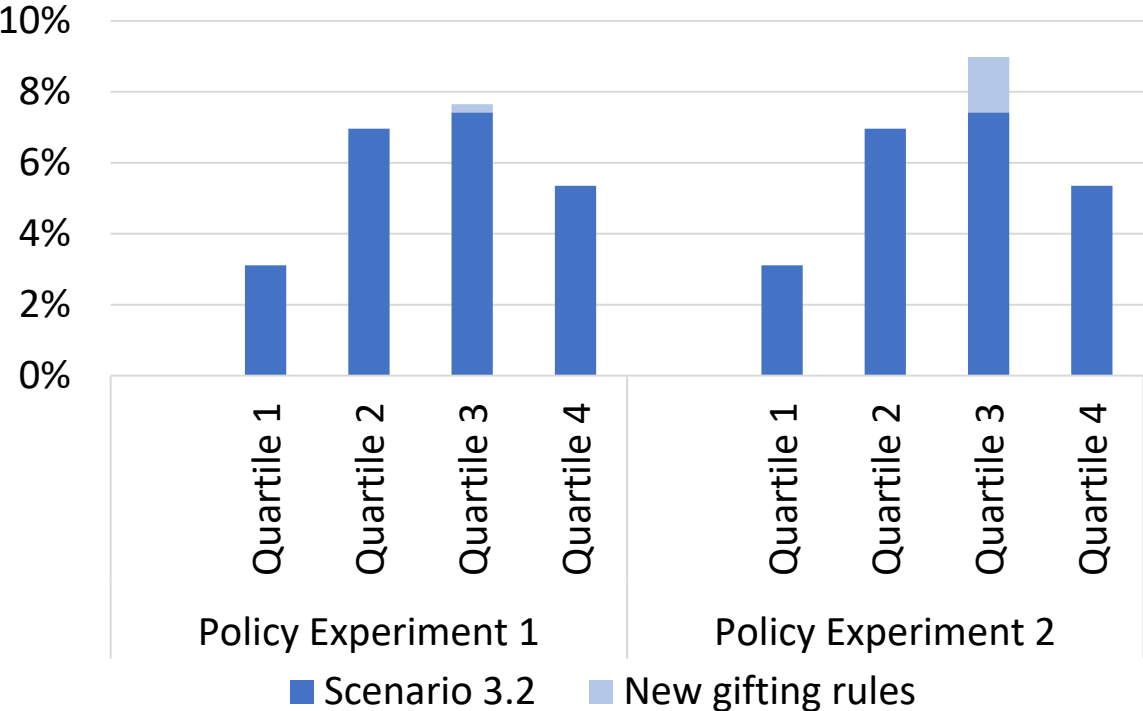
Policy Design Experiment

Scenario 5 – Change gifting rules

Assumptions:

- Annual gifting limit \$10k → \$16k
- No gifting limit

Aggregate Non-housing CEV by Wealth Quartiles



Summary of results

- Most families across all wealth quartiles enjoy **welfare gains** when the parent shares a portion of reverse mortgage payments with the child
 - Least wealthy: regular income (no gifting)
 - Wealthier families: regular income + lump sum gift
- Child repayments on RM (with lower RM rates) → Only Q4 benefits
- Higher LVRs (with higher RM rates) → Most households benefit from small increase
- Changes to **Age Pension gifting rules** → Only Q3 benefits

Conclusion

- First/one of few studies that model housing wealth usage through reverse mortgages **in an intergenerational context**
- Determined **optimal strategies** for families at different wealth levels
- Results: families across different wealth quartiles (excluding the lowest) **could benefit** if the parent shares RM payments with child

- Comparison with Household Capital client data:
 - No strong evidence that gifting family members is a common
 - **Opportunity** promote RMs



Thank you!

Contact:

Katja Hanewald

K.Hanewald@unsw.edu.au



Related survey-based research

Journal of Economic Behavior and Organization 169 (2020) 19–37



ELSEVIER

Contents lists available at [ScienceDirect](https://www.sciencedirect.com)

Journal of Economic Behavior and Organization

journal homepage: www.elsevier.com/locate/jebo

Is there a demand for reverse mortgages in China? Evidence from two online surveys[☆]

Katja Hanewald^{a,*}, Hazel Bateman^b, Hanming Fang^{c,d}, Shang Wu^e

^a School of Risk and Actuarial Studies, UNSW Sydney, Sydney NSW 2052, Australia, and ARC Centre of Excellence in Population Ageing Research (CEPAR)

^b School of Risk & Actuarial Studies, UNSW Sydney, and CEPAR, Australia

^c Department of Economics, University of Pennsylvania, Philadelphia, PA, USA

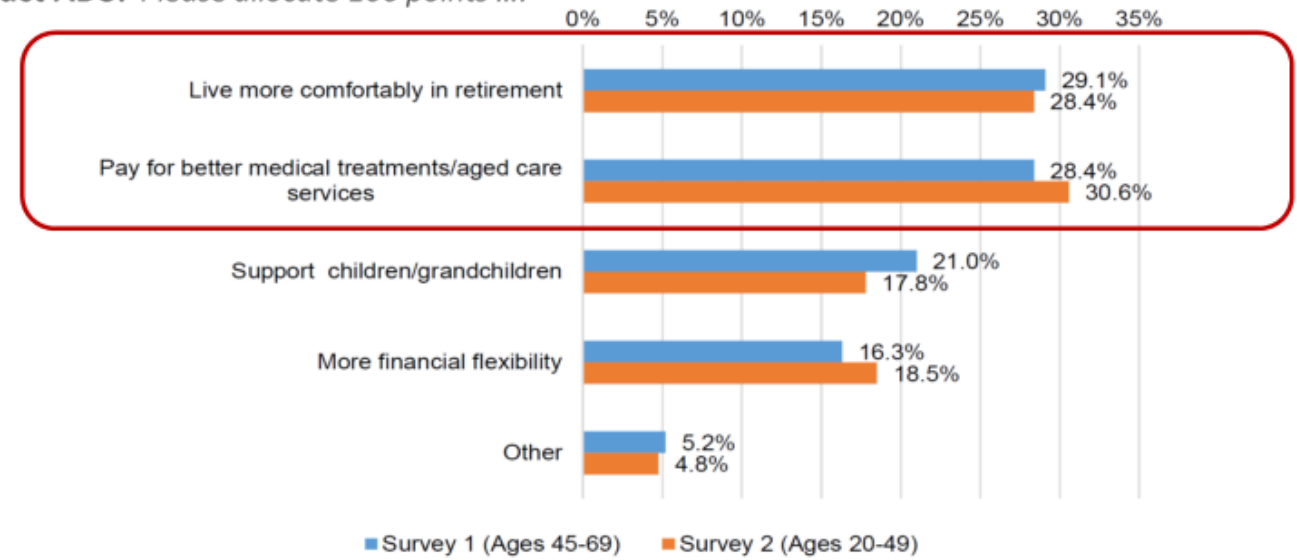
^d ShanghaiTech University, China and CEPAR, Australia

^e First State Super and CEPAR, Australia

Use of reverse mortgage payments – older & younger aligned

Survey 1 (Ages 45-69): How would you allocate the use of payments from product ABC?
Please allocate 100 points ...

Survey 2 (Ages 20-49): How would you advise your parents to use the payments from product ABC? *Please allocate 100 points ...*



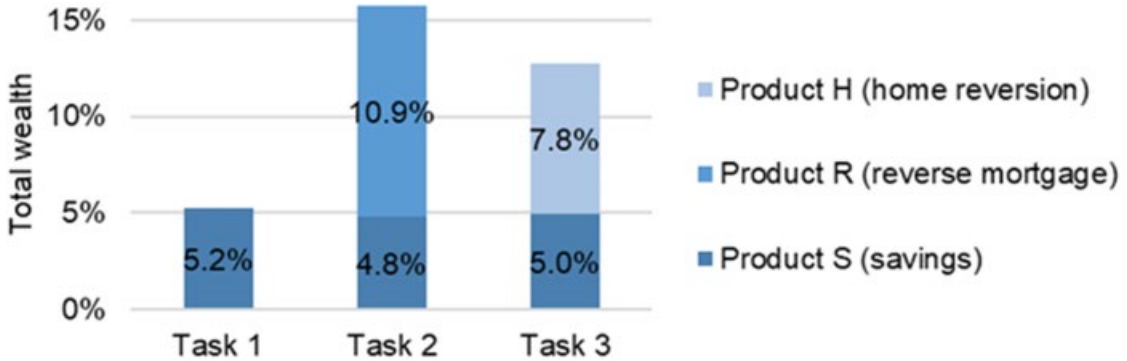
Related survey-based research

Long-Term Care Insurance Financing Using Home Equity Release: Evidence from an Online Experimental Survey

Katja Hanewald, Hazel Bateman, Hanming Fang & Tin Long Ho

WORKING PAPER 29689 | DOI 10.3386/w29689 | ISSUE DATE January 2022

Average demand for LTCI is higher when can use equity in home



Related survey-based research

Bateman, H., Hanewald, K., Ho, T. L., and Lou, H. (2023), Demand for reverse mortgages: Can information framing offset behavioral biases, Working paper.

On average 42% of survey participants stated would take a reverse mortgage [Equity Release Product], using an average 13% of housing assets

