



‘It’s on the House’

SEQUAL-RFI Reverse Mortgage Study

A consumer study into the attitudes and perceptions of Australians aged over 60 years

Table of Contents

Table of Contents	2
Introduction to SEQUAL and RFI	5
SEQUAL	5
RFI	5
Introduction and highlights	6
<i>Background</i>	6
<i>Retirement and finances</i>	7
<i>The family home and aged care</i>	9
<i>Awareness of reverse mortgages</i>	10
<i>Experiences of reverse mortgages</i>	11
<i>Features of reverse mortgages</i>	12
Chapter 1: Background	14
<i>The ageing population</i>	14
Growth in the over-60s population	14
The ageing of the population has direct relevance for all concerned with retirement and aged care	15
<i>Property ownership and the wealth of older Australians</i>	16
Older Australians are overwhelmingly property owners	16
Financial assets held by older Australians	17
Superannuation assets	17
Reliance on government pension payments	18
The asset imbalance of older Australians	20
<i>The Baby Boomers</i>	20
Baby Boomers are healthier and wealthier than previous generations	20
Baby Boomers have a very different outlook to previous generations	21
But the perception that Baby Boomers have 'had it all' is misguided	21
Baby Boomers need to find a way to bridge the gap between the life they want and the life their superannuation enables them to afford	22
<i>Builders</i>	22
Builders have a strong work ethic and are loyal to family, work and brands	22
Life expectancy	23
Wealth based primarily in property assets	23
Retirement and the outlook for Builders	23
Chapter 2: Retirement and finances	25
The survey respondents	25
The average age at retirement is 60	25

Many individuals decided to retire when they have accumulated enough money to live off	26
Wealthier individuals tended to have private health insurance	26
More than one third of over-60s do not have superannuation	27
Older retirees tend to rely heavily on Age Pension	28
Many over-60s who are still in the workforce plan to use their superannuation to fund their retirement	31
Almost 40% of over-60s are planning to be retired for more than 15 years	33
But more than one third are planning to be retired for less than 5 years	33
Many individuals are ensuring they have enough money to live off in retirement before they leave the workforce	33
Half of single or widowed non-retirees expect to have less than \$400 a week during retirement	34
Half of non-retired couples expect to have less than \$500 a week during retirement	35
Chapter 3: The family home and aged care	37
More than four-fifths of over-60s believe the family home should be passed on to their children	37
Cash-poor individuals are most likely to sell their home to buy a smaller property	37
Lower income earners are more likely to sell their family home if they need to move into aged care	38
More than one third of over-60s believe it is unlikely there will be a space for them if they move into aged care	39
Around half of over-60s did not know what entry costs and ongoing fees for aged care would be like	40
Chapter 4: Awareness of reverse mortgages	43
More than three quarters of over-60s are aware of reverse mortgages	43
Advertisements seem to be working in promoting awareness of reverse mortgages	44
Only half of reverse mortgage-aware respondents understood the basic concept of the product	45
Awareness of SEQUAL is not high among over-60s	47
14% of reverse mortgage-aware respondents stated that they have become more positive about the product over the last 4 years	49
Perceptions of reverse mortgages have been largely influenced by media coverage	50
Very few over-60s are likely to take out a reverse mortgage which could be a result of a lack of understanding	51
Chapter 5: Experiences of reverse mortgages	53
Less than 2% of over-60 year olds have a reverse mortgage	53
Many borrowers would recommend reverse mortgages to friends	53
But there needs to be better consumer education about such products	54



Chapter 6: Features of reverse mortgages	55
Pricing and equity protection are the most important features of a reverse mortgage	55
The majority of over-60s would want to protect more than half of their property's equity	56
Fixed rates are considered more preferable than variable rate loans	57
Good pricing is more preferable than a product with a large range of features	58
Those who would use a reverse mortgage are likely to do so to fund their retirement	59



Introduction to SEQUAL and RFI

SEQUAL

Senior Australians Equity Release Association of Lenders (SEQUAL) was launched in January 2005 as a not for profit association supported by Australia's leading providers of Equity Release products.

The SEQUAL Mission is to ensure the professionalism of those who offer or distribute Equity Release products for senior Australians. SEQUAL is dedicated to assuring consumers and industry participants alike of the quality and integrity of its members, and the way members conduct their business.

The primary objectives of SEQUAL are fourfold:

1. To provide members with a forum for collaboratively and ethically developing the Equity Release market in Australia, with particular regard for issues previously experienced both overseas and in Australia
2. To provide a transparent Code of Conduct by which members of SEQUAL are expected to comply, for the protection of consumers
3. To provide a central body for lobbying industry stakeholders and Government bodies
4. To provide a central source of information to consumers on the product category, including the sources of independent information that are available on Equity Release options, and access to SEQUAL members.

RFI

Retail Finance Intelligence (RFI) is a strategic research business that delivers primary research and analysis by identifying and formulating projects within the arena of retail finance. RFI's analysis is underpinned by B2B and B2C primary research, which enables RFI to make practical recommendations based on the key issues and trends affecting any segment of the Australian market.

For more information visit www.rfintelligence.com.au

Introduction and highlights

In the Australian market there is a lack of research assessing the attitudes and perceptions of older Australians towards funding retirement and releasing equity in their homes through reverse mortgages. In response to this in October 2007 SEQUAL commissioned a survey of 1,000 Australians aged over 60 years. This report is based upon a national telephone survey of 1,000 Australians over the age of 60.

The report presents the results of the survey conducted and analysed by RFI, focusing on the attitude towards reverse mortgages among Australians aged 60 and over. The report begins by providing a portrait of the over-60s consumer segment, with a special focus on Baby Boomers and Builder generations that make up the large majority of the over-60s segment.

The report goes on to explain why equity release products are a 'natural fit' to the needs of current and future retirees and examines how older Australians plan on funding their retirement, how reverse mortgages are viewed by this population and what aspects of the product can help them achieve their goals in retirement.

The highlights of the report are presented below.

Background

Australia's population, like other developed countries, is ageing as a result of low fertility and increasing life expectancy. For example, in 1971 only 13.1% of the population was over 60, a proportion which increased to 15.0% by 1986 and by 1996 this group accounted for 15.9% of the population. As the Baby Boomers reach retirement age in the next few decades, Australia's over-60 population is expected to rapidly increase.

In response to this rapidly 'greying' population, all sectors connected with or affected by old age and retirement will need to realign their facilities and services, and to allocate more staff to popular 'sea change' or 'tree change' areas to cater for the influx of new retirees.

Older Australians are overwhelmingly property owners. Builders and Baby Boomers have at least 60% of their wealth tied up in property assets, while on average financial assets make up around 20% of total wealth of over-65s. There is also evidence that reliance on Age Pension is strong because many seniors have little superannuation and personal savings to depend on during retirement. The result is that many seniors become asset rich, but income poor.

This 'asset imbalance' means that these older Australians will have to turn to other sources of funding by accessing the value of their illiquid assets. In many cases these individuals may be forced to access the equity in their homes by downsizing and moving into smaller accommodation. Indeed, 31% of survey respondents stated that it would be likely for them to sell their home to buy a smaller property if they need to generate additional funds during retirement.

In this sense, the idea of using property is not new. However, many older Australians have an emotional commitment to stay in their home, particularly if the property has been in the family for many generations. Also, older individuals may be reluctant to move into a different neighbourhood away from their friends and familiar environment.

Equity release products such as reverse mortgages allow seniors aged 60 and over to access the equity in their home without requiring them to move into smaller accommodation or make repayments during their lifetime. In some ways, these products offer an attractive option for those individuals who find themselves owning their property outright but seeking an additional source of income to live their retirement years in comfort.

Retirement and finances

The current compulsory superannuation system was introduced in 1992 under the Keating Labour government. This means that many Builders and early Baby Boomers were not able to benefit from a long period of enforced savings, creating a superannuation 'imbalance' which forces those with little or no superannuation to rely on other sources of income such as Age Pension.

The SEQUAL-RFI study reveals that 35% of over-60s did not have superannuation and that a large proportion of these individuals were made up of older respondents aged 70 and over. While only 19% of 60-64 year-olds had no superannuation, this percentage increased to 34% for 65-69 year-olds and 40% for 70-74 year-olds. Significantly, 60% of over-75s stated they had no superannuation.

The reasons for such a high proportion of over-60s without superannuation are twofold. One reason is that many older Australians missed out on the 'superannuation guarantee' and hence never had the opportunity to build up their savings during their working years. Another reason is that older individuals who did have superannuation when they were younger have already exhausted their funds in later life.

While younger retirees rely on a more 'balanced' combination of superannuation, savings and Age Pension, older retirees tend to rely more heavily on governmental support. For

example, results show that while 35% of 60-64 year-old retirees receive a government pension, this percentage increased to 64% for 65-69 year-olds and 71% for over-75s.

However, the positive news is that many retirees did not seem to be in financial predicament and that it will not take much to improve their current standard of living. In total, 28% of respondents stating that they would need less than \$150 per month and a further 22% stated that an extra \$151-\$300 would improve their current lifestyle. While it is difficult to measure how content individuals are with their lifestyle, results from the SEQUAL-RFI study do suggest that many are satisfied with their current arrangements.

Younger individuals in their 60s who are still working are more likely to depend on their superannuation and income from part-time work. Again, this is to be expected as younger individuals are more likely to benefit from compulsory superannuation contributions that have been built up over a long period of time.

Interestingly, individuals planning to retire soon seem to be less optimistic about their ability to support themselves over the long term than those that are already retired. For example, although 71% of non-retirees stated that they planned to use their superannuation to fund their retirement, more than one third believed that their superannuation would only last up to 5 or 10 years. It is equally of concern that 34% of non-retirees expected their personal savings to be exhausted by the 5-year mark.

Accounting for this relative pessimism is difficult, although it is possible that those already in retirement have a better sense of their budgeting and financial capabilities than those who are still planning their retirement.

The Westpac-ASFA Retirement Standard is an annual study into the cost of retirement living for couples and singles. The 2007 study found that over the last three years the cost of a 'modest' standard of living in retirement increased by 8.8% and for a 'comfortable' retirement by 8.1%.

If we were to take this Standard into account, 25% of non-retired singles and widows will fall short of the 'modest' target of \$357.74 per week during retirement. Also, 50% of non-retired couples will fall short of the 'modest target' of \$501.59 per week.

However, the flipside is that many couples are expecting to have enough funds for their retirement. At the lower end of the income scale, while 57% of non-retired couples stated that they expected to need less than \$500 per week during their retirement 59% stated that they expected to be able to have the same amount to live off when they retire.

The family home and aged care

It is a common observation that many older Australians see their family property as a legacy and as an asset to pass onto their children. Indeed, the SEQUAL-RFI Study confirms this social convention of passing on the family home, with 75% of over-60s stating that the property should be passed on to their children as inheritance.

Although the majority of older Australians believe in passing on the family home, some cash-poor individuals may be forced to downsize their property and move to smaller accommodation in order to fund them during retirement.

And it seems that over-60s mostly prefer to sell their home to buy a smaller property if they need to generate additional funds during retirement. 22% of respondents stated that they would be very likely to sell their home and buy a smaller property and a further 9% stated they would be somewhat likely to do so. The issue with such a move is that in many cases buying a smaller property means moving to a different suburb.

Those who intend to enter into aged care or a retirement village will also have to consider selling their family home. As the SEQUAL-RFI Study shows, these individuals tend to be lower income earners with an annual household income of less than \$20,000.

However, besides financial considerations there are also emotional factors that might persuade individuals to give up their family property to move into aged care, such as the desire for company and friendship. For example, it was found that single and widowed respondents were more likely to sell their family home if they need to move into aged care than their couple counterparts. In total, 36% of single/widowed respondents stated that it was very likely that they would sell their family home compared to 29% of married and de-facto respondents.

It should be noted that around half of respondents had no idea about entry costs or ongoing costs associated with aged care or retirement villages. In total, 45% of respondents did not know what entry costs would be like and 59% did not know how much they would expect to pay in ongoing fees.

This general unawareness of the high costs associated with living in aged care facilities suggests that many older Australians might be financially unprepared or burdened in making the move to aged care or retirement village. Clearly, wider education of the financial impact of moving into aged care would better equip seniors – financially and emotionally – even if they do not plan to move into aged care in the near future.

Awareness of reverse mortgages

While growth in the seniors home equity market in Australia is still relatively young and not yet a mainstream product, reverse mortgages have been available in the UK and US markets for almost four decades. The SEQUAL-RFI Study shows that 78% of over-60s in Australia had heard of reverse mortgages and that of these individuals, 14% knew someone who had taken out a reverse mortgage. In total 1.4% of over 60's had actually taken one out.

The large majority of over-60s were first made aware of reverse mortgages by advertisements. More than half of the respondents stated that they first found out about reverse mortgages via adverts on TV (29%), magazines (19%) and radio (8%). These findings suggest that adverts and media coverage greatly promote awareness of reverse mortgages, even more so than direct industry channels such as financial planners, bank branches and mortgage brokers.

It should be noted that while 78% of respondents were aware of reverse mortgages, only 40% knew the basic premise of the product. Many respondents knew that taking out a reverse mortgage means having an additional source of funds because the product is a means of releasing the equity of a property. However, 28% of these individuals were unsure about the finer features of the product, such as the fact that a reverse mortgage does not involve selling a portion of the house in exchange for money or that the loan does not involve compulsory repayments until the permanent departure of the borrower.

These findings certainly indicate that more needs to be done in educating consumers about the actual features of reverse mortgages. In many ways, it is not constructive to have 78% of over-60s aware of reverse mortgages but only 40% that actually understand the basic premise of the product. The role of educator must fall primarily on to government and consumer organisations who can tackle the issue without being seen to promote the product, working in conjunction with the reverse mortgage industry to ensure that consumers are educated without being scared away from this important retirement option.

Over the past few years, reverse mortgages have received some negative coverage in the mainstream Australia press. As a result, many over-60s have become a lot more negative about reverse mortgages in the last four years. In total, 10% of respondents stated that they had become a little more negative and a further 19% stated that they had become a lot more negative about such products.

When asked how media coverage has influenced their opinions of reverse mortgages, 22% of respondents said very negatively and a further 15% said somewhat negatively. For some

individuals, however, their opinions of reverse mortgages have remained neutral or mixed and 43% of respondents stated that this was the case.

The combination of negative media coverage and lack of product understanding means that many individuals may be guided by misconceptions. This goes some way to explaining why the large majority of over-60s are reluctant to consider taking out a reverse mortgage. However, if the 6% of respondents that stated that they would be likely to obtain such a loan actually did so, it would have a huge impact on the market. A 6% market penetration would be four times the current 1.5% penetration and would represent a significant proportion of retirees.

There are other reasons to explain such a degree of reluctance, including a fear of losing pension benefits because of the pension assets test and the desire to pass on the family property to children. A reverse mortgage often means that the property will need to be sold once the occupants have permanently left so that the loan and accrued interest can be repaid.

Experiences of reverse mortgages

The recent SEQUAL Trowbridge Deloitte Reverse Mortgage study has found that the Australian reverse mortgage market at 30 June 2007 consisted of more than 31,500 reverse mortgages. Based on a population of 3.8 million over 60s in Australia and taking into account that many would be married or in de-facto relationship, approximately 1.5% of these people would have a reverse mortgage.

This estimate is fairly consistent with findings from the SEQUAL-RFI Study, which reveals that 14 out of 1,000 respondents had a reverse mortgage, translating to 1.4% of Australians over the age of 60. The majority of these borrowers were in the lower income brackets with less than \$40,000 in annual household income, supporting one view that reverse mortgages are a 'last resort' solution for those who cannot afford home repairs and essential living items.

These 14 respondents with a reverse mortgage were generally very positive about the product. Many of these respondents wanted to use the additional funds to support them during retirement whilst for others, a reverse mortgage meant that they were able to buy a new car or to renovate their home – either as a form of investment or to increase mobility around the house.

And many respondents were satisfied with their reverse mortgage. Almost half the respondents stated that the product improved their lives significantly despite initial concerns

such as rising interest rates and not being able to access equity in later life. Relatives and friends of these respondents were also supportive of their decision to take out a reverse mortgage, with three quarters of respondents stating that their close ones had a positive attitude towards them obtaining the loan.

More importantly, when asked if they would recommend a reverse mortgage to their friends, the large majority of respondents said yes. Clearly, the growth of this sector will largely depend on establishing and then maintaining consumer confidence, which in turns means ensuring that negative consumer experiences are avoided. Calls for tighter regulation of the brokerage industry may also boost consumer confidence and ensure a standard of quality that advice must meet.

Features of reverse mortgages

One of the important questions for consumers is to consider how much they would pay in arranging for a reverse mortgage. As with any financial product, pricing is a key differentiator and research has shown that this is definitely the case with a reverse mortgage.

More than half of all respondents stated that price-related features such as the interest rates and associated fees were very important; in fact, these two aspects were considered to be the two most important product features, scoring means of 8.24 and 8.12 out of 10 respectively.

Other important features were related to the protection of the property's equity. In total, 54% of respondents stated that a 'no negative equity guarantee' feature is very important (scoring 10 out of 10) while a further 44% stated the same for a protected equity feature. A 'no negative equity guarantee' feature ensures that borrowers will never owe more than the value of the property, while a protected equity feature ensures that there will be a guaranteed percentage of the property's value to be passed on to beneficiaries after the loan is repaid.

Those who believed that a protected equity feature would be valuable were then asked how much of the property's equity they would prefer to protect. In total, 62% of respondents stated that they would want to protect more than half of the property value which indicates that many over-60s believe they should pass on a significant percentage of their assets to their beneficiaries. This finding also suggests that there is a space in the market for a product that is more tailored to meet these consumer needs.

Also, good pricing is considered more preferable than a product with a large range of features, with 75% of respondents preferring lower interest rates and fees. Pricing is an

especially important factor for lower income earners, with 80% of respondents with annual income of less than \$20,000 preferring lower interest rates and fees.

When asked whether a fixed or variable rate loan was more preferable, 30% of respondents were indifferent. Of the remaining respondents, 58% stated their preference for fixed rates while 12% favoured variable rates. Those who preferred fixed rates mostly liked the associated certainty of knowing how much the interest is exactly applied onto the loan, while those individuals who favoured variable rates simply did not like being locked into a fixed rate loan.

Although there is a common view that the option of taking out a reverse mortgage is a choice of 'last resort', over 40% of survey respondents stated that they would consider obtaining the product. Of these respondents, 25% stated that they would use the borrowed amount to fund their retirement and it was found that younger consumers were more likely to use the funds for this purpose. In total, 35% of 60-64 year-olds cited this reason compared to 20% of 70-74 year-olds and only 16% of over-75s.

This finding may reflect the view that Baby Boomers are more comfortable with the idea of releasing equity in their home to fund their retirement compared to the more traditional Builder generation, who are largely of the opinion that the entire family home should be passed on to their offspring as inheritance.

On the other hand, 57% of over-60s stated that they would not consider using a reverse mortgage and this backs up the assertion that the product is not necessarily for everyone. As mentioned earlier, this reluctance may be due to desire to pass the entire family property to children, fear of reduction in pension benefits or common misconceptions about the product itself. Whatever the reason may be, these results suggest that while reverse mortgages have a place in the Australian market they will not be embraced by all.

Chapter 1: Background

This chapter sets the scene for this report. It begins by reviewing population data on the size and importance of the over-60s demographic segment. It also shows how the over-60s segment will continue to grow and become an increasingly important section of the Australian population. The chapter goes on to illustrate the characteristics of over-60s, particularly in regard to property ownership.

Finally, the chapter focuses on the two very different groups within the over-60s population, the Baby Boomers and the Builders. It reviews how these two segments differ and explains why this is relevant to the reverse mortgage market.

The ageing population

Australia's population, like other developed countries, is ageing due to a combination of low fertility and increasing life expectancy among its population. According to the Australian Bureau of Statistics (ABS), in 2005, Australia's population stood at 20.3 million people, of which 17.7% were aged over 60 years of age.

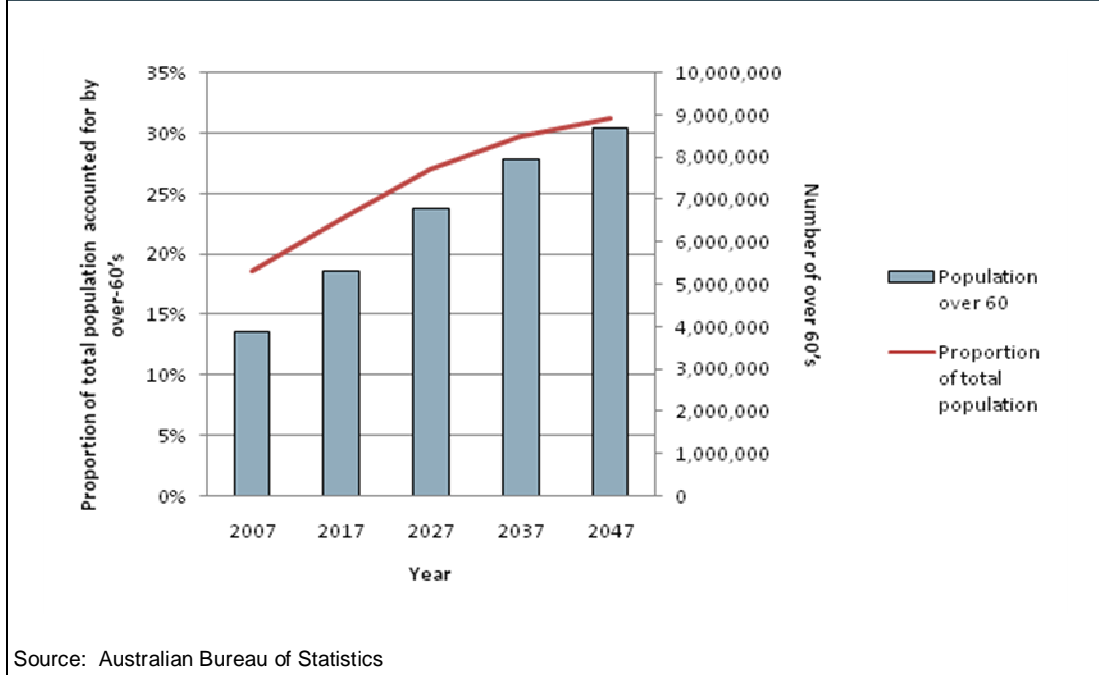
Growth in the over-60s population

The proportion of over 60s in Australia has increased significantly over the last few decades. For example, in 1971 only 13.1% of the population was over 60, a proportion which increased to 15.0% by 1986 and by 1996 this group accounted for 15.9% of the population.

The aging of Australia's population is expected to continue, and at a more rapid pace, over the next four decades, as the baby boomers reach retirement age. The baby boomers are an important demographic group, as they were born when Australia's birth rate was at its highest level in history. Furthermore, the fertility rate in Australia has remained below the replacement rate since 1990, which has caused resulted in an increasing median age in Australia. According to the ABS, in June 2006 the median age in Australia was 36.7 years, but due to the expected 'greying' of Australian population, the median age is expected to increase to 45.2 years by 2050.

The annual growth rate of people turning 60 or more years of age is expected to increase by an average of 3% per annum until 2050. However, after 2050 the growth rate is predicted to level out to an average of only 0.3% per annum between 2050 and 2100.

Figure 1: The population of over-60s is expected to grow significantly over the next 40 years, accounting for almost a third of the population in 2047



This growth in the over 60s population is not confined to Australia, but is part of a wider demographic shift in the developed world, including in comparable countries such as the UK, Canada and the US.

The ageing of the population has direct relevance for all concerned with retirement and aged care

The ageing population has direct relevance for financial services providers, particularly those in the equity and reverse mortgage markets. The aging population will require a realignment of service provisions with greater branch presence in new growth locations (e.g. in favoured 'sea change' and 'tree change' areas) and more staff allocated to serving the needs of retirees. In addition, the ageing population justifies the retention of more mature staff members to service customers in their retirement years.

The ageing population has considerable implications for all sectors connected with or affected by old age and retirement. For example, there are significant implications with regard to retirement funding and superannuation, private healthcare, aged care provision, insurance and most pertinently for this report, in equity release products such as reverse mortgages.

Property ownership and the wealth of older Australians

The Australian property boom over the last few years has been both a cause and consequence of the desire to own residential property. This boom has had a significant impact on the ability of potential first home buyers to enter the market and on the value of property owned by those that already owned property such as the Builders and Baby Boomers.

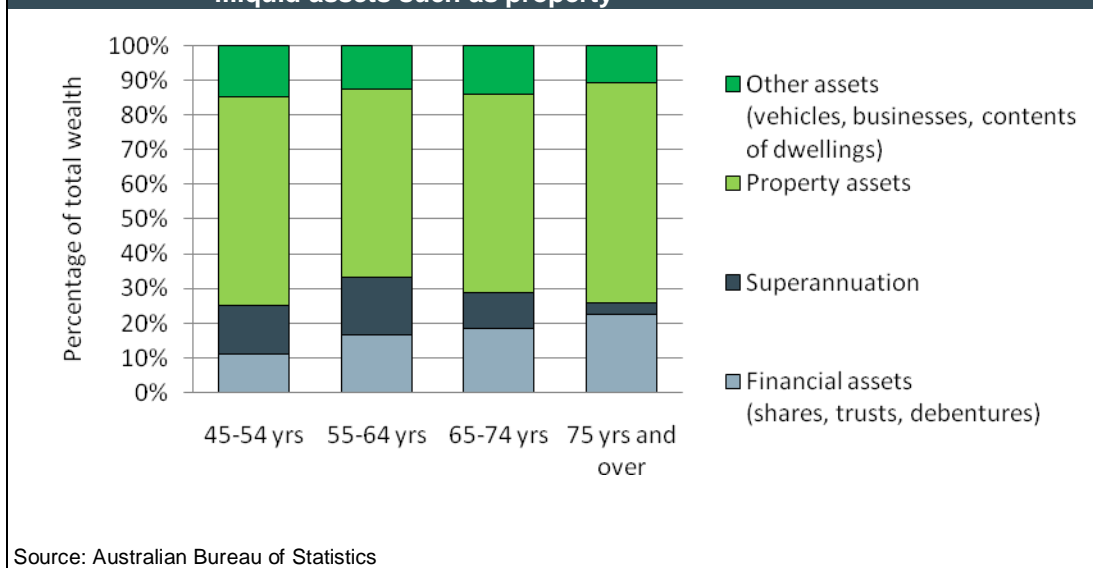
Older Australians are overwhelmingly property owners

These segments – the Builders and the Baby Boomers – of the population have clearly benefited from the positive movements in house prices, with the result that over 60% of their wealth is held in property assets.

The percentage of wealth held in property assets differs slightly between each age group, but generally the older the age group the higher the proportion of wealth accounted for by property assets. For example 55-64 year olds have 54% of their wealth held in property assets, while those aged 65-74 have 59% of their wealth in property and the over 75 year-olds have 63% of their wealth in property.

Non-owner occupied property assets, held by those over the age of 65, account for 18% of property wealth. This indicates that while this figure may only be a relatively small proportion of their overall property wealth, it is still a sizable proportion when compared to other wealth assets held by this group. For example the second most important wealth category for the over 65s, “financial assets”, accounts for only 20% of their overall wealth.

Figure 2: The majority of the wealth of Australian’s over 60 is accounted for by illiquid assets such as property



ABS statistics also indicate that older property owners tend to have more wealth invested in their owner occupied residence, as opposed to other property investments such as a holiday house or investment property.

In fact, among Australians aged over 75 years, 86.4% of their property wealth is held in owner occupied properties. This is in comparison to only 76.3% for those aged between 55 and 64 years old and 74.1% for those aged 45-54.

Despite the high level of home ownership and Australia's 'love affair' with property, there is growing concern for those individuals who do not expect to be able to be mortgage-free by the time they retire. According to a previous survey conducted by RFI of 1,000 Australians over 40, almost one third of individuals expect to take their mortgage into retirement. The study also reveals that 20% of retirees were still making mortgage repayments, with 9% making repayments of more than \$1,000 per month. Although property is seen as an important asset and investment option for many Australians, there is considerable concern for the proportion of individuals still carrying mortgage debt into retirement.

Financial assets held by older Australians

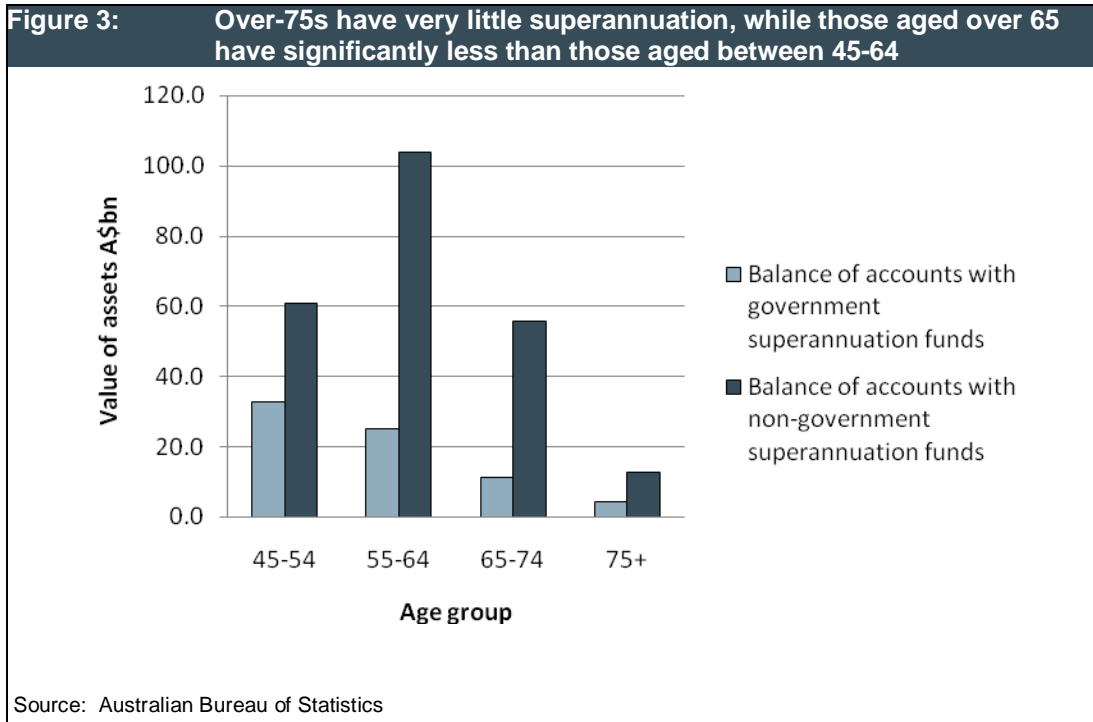
After property, the second most important category in terms of wealth for the over 60s is "financial assets", consisting of wealth held in shares, deposit accounts, trusts, debentures and bonds. These assets make up an average of 20.3% of wealth for over 65 year olds, with the largest proportion, 37.0%, of this held in deposit accounts with Australian financial institutions.

The age group with the highest proportion of financial wealth held in deposit accounts appears to be the over-75s, whose deposits account for 37.7% of their financial assets, compared to 36.3%. This result is not entirely unexpected since many older individuals would require the ability to access their funds easily coupled with minimal risk. Shares account for the third largest proportion of financial assets - 30.0% - held by those over 65 years of age.

Superannuation assets

Significantly, the third most important category in terms of overall wealth of older Australians is superannuation, which accounts for just 7.2% of the wealth held by over-65 year olds. The proportion of superannuation directly correlates to the age of the respondent, for example only 3.3% of wealth is held in superannuation accounts for those aged over 75 years, but superannuation accounts for 16.7% of wealth held by 55-64 year olds. This outcome is not unexpected, as the superannuation guarantee only became law towards the end of the

working careers of many older Australians, meaning they did not benefit from a long period of enforced savings.

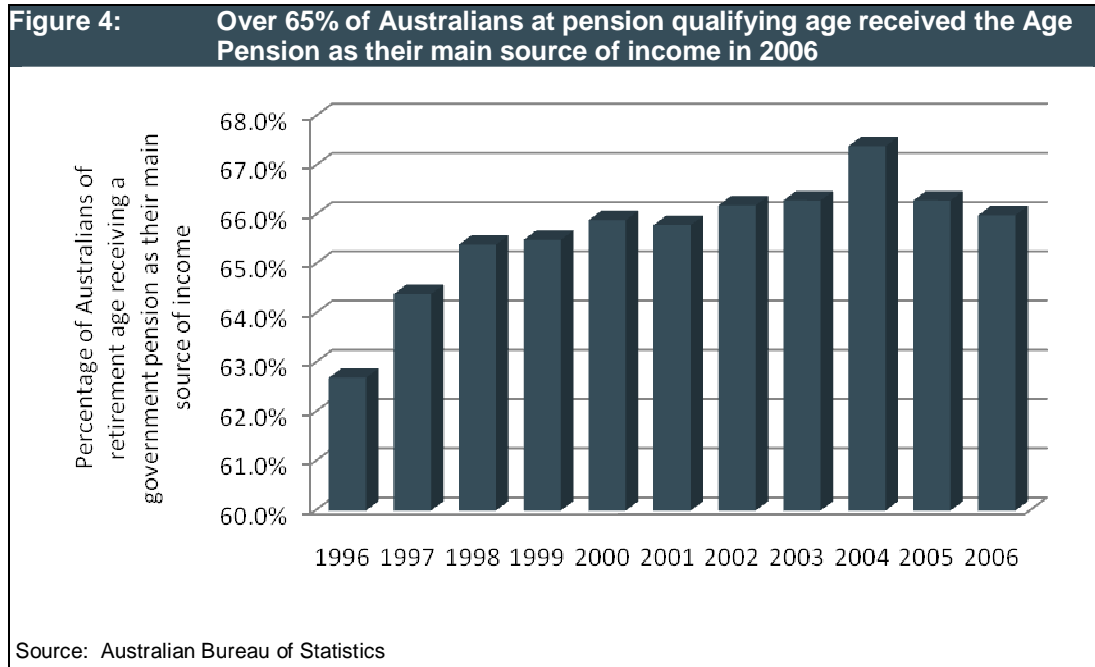


The government has recently tried to redress the superannuation imbalance with its new superannuation rules. These rules are designed to make superannuation more attractive, for example, by allowing tax free super contributions of up to \$1 million prior to the 30th of June 2007, and more flexible, for example, by enabling people aged 55 and over to top up their income with a pension from their superannuation fund. Early evidence does suggest that the rule changes have sparked greater inflows into superannuation, though these changes will be of most benefit to wealthy individuals that are still working. Those Australians that have already retired are unlikely to benefit.

Reliance on government pension payments

As a consequence of the low proportion of assets held by older Australians in superannuation funds, there is reliance among retirees on the Age Pension. According to the ABS, the percentage of people who are above the qualifying age and receive a pension as their primary source of income sits over 65%.

In fact, in 1996 approximately 62% of Australians at the pension qualifying age received the Age Pension as their main source of income. This figure hit a peak of 67% in 2004 before retreating to 66% in 2006.



Recently, the government changed the eligibility requirements for the Age Pension to enable more retirees to become eligible for the payment. The changes mentioned in the 2006/2007 budget include:

- The Age Pension assets test taper rate will be halved from approximately \$3.00 to approximately \$1.50 for every \$1,000 of assets above the relevant assets test lower threshold (currently \$161,500 for single homeowners and \$229,000 for coupled homeowners); and
- The 50% assets test exemption for complying pensions and annuities will be removed.

As these changes make it easier for retirees to receive a pension, it is believed that the number of retirees using the Age Pension as their main source of income is likely to increase. Due to the number of factors used to determine pension eligibility, e.g. asset and income tests, it is unknown how significant the impact will be, however, this assumption is further supported by results of a recent study conducted by the Australian Institute, showing 58% of Baby Boomers expect some form of reliance on the government pension despite having benefited from a period of compulsory superannuation.

This reliance on the Age Pension is backed up by results from the SEQUAL-RFI study which shows that of those individuals aged 60-64 and currently retired, 35% relied on Age Pension

as a source of funds. This percentage of individuals who relied on Age Pension significantly increased with age, from 64% of 65-69 year olds to 69% of those aged 70 and over. While Baby Boomers expect to live off a more 'balanced' combination of Age Pension and their own superannuation, Builders are much more dependent on governmental support as they missed out on the benefits of compulsory superannuation during their working years.

The asset imbalance of older Australians

Clearly, there is an imbalance between the wealth that older generations have in property and the wealth they hold in assets that they are able to use to fund their retirement such as superannuation. This imbalance is placing a continued reliance on the Government's Age Pension, which rarely provides retirees with enough income with which to lead comfortable lifestyle.

If these individuals cannot rely on superannuation or other financial assets to fund their retirement then they will have to turn to other sources of funding by accessing the value of their illiquid assets. In many cases these individuals may be forced to access the equity in their homes by downsizing and moving into smaller accommodation. When RFI asked survey respondents how they would acquire additional funds during retirement, 31% said they would likely be selling their home to buy a smaller property. Indeed, in this sense the idea of using property to fund retirement is not new.

The Baby Boomers

This section provides a portrait of the Baby Boomers, illustrating their unique attitudes and aspirations and the implications for financial services providers.

The term 'Baby Boomer' has been coined to refer to those born in the two decades after World War II. There are now almost six million Baby Boomers in Australia, amounting to around 30% of the total population. Baby Boomers are not a uniquely Australian phenomenon, and the Baby Boomer generation is identifiable in most other developed nations.

Baby Boomers are healthier and wealthier than previous generations

Baby Boomers now find themselves in a very unique position. They are, for example, healthier and wealthier than previous generations.

Medical advancements mean that life expectancy has increased significantly. According to the Australian Bureau of Statistics (ABS), on average, life expectancy for a man who was 50 in 2005 was another 31 years, up from 28 years in 1995. Similarly, life expectancy for a

woman who was 50 in 2005 was another 34.9 years, up from 32.6 years in 1995. A man who was 65 in 2005 could expect to live for 2.4 years longer than a man who was 65 in 1995.

The March 2007 AMP.NATSEM Income and Wealth Report¹ estimates that each Baby Boomer has on average accumulated net wealth of \$381,000, with the richest 25% of Baby Boomers accumulating net wealth of more than \$900,000. The report estimates that Baby Boomer households now account for more than 50% of total net worth despite accounting for only 27% of the total number of households.

Baby Boomers have a very different outlook to previous generations

Baby Boomers have a very different outlook to previous generations. Whereas previous generations were frugal and conservative and expectant of a quiet retirement, Baby Boomers are goal driven and 'aspirational'. They expect their retirement to provide a quality of life matching that which they enjoyed during their working years. For example, Baby Boomers expect to travel and enjoy leisure pursuits. They also expect to be able to enjoy the house that they want rather than simply the house they can afford. A 2006 Commonwealth Bank *Lifestyle Aspirations* survey² confirmed this indicating that 40% of Baby Boomers plan to spend some of their savings in retirement on renovations, 85% expect to travel domestically or overseas and 73% plan to take up a new hobby.

But the perception that Baby Boomers have 'had it all' is misguided

Given the prosperity generally associated with the Baby Boomer generation, some commentators point out that Baby Boomers have benefited from free universal education, economic prosperity, good jobs and a strong property market. Baby Boomers have indeed benefited from these conditions; however, the perception that Baby Boomers have 'had it all' is misguided.

Many Baby Boomers find that they are uncertain about how their desired retirement lifestyle will be funded. Whereas previous generations could rely upon social retirement provision, such extensive provision will not be there for Baby Boomers. Similarly, while Baby Boomers are now expected to self-fund their retirement, they have not had the time in the workforce to accumulate enough superannuation to make this possible. In this sense, Baby Boomers can be referred to as the 'piggy in the middle' generation benefiting from neither state retirement provision nor compulsory superannuation contributions.

¹ *Baby Boomers – doing it for themselves*. AMP.NATSEM Income and Wealth Report. Issue 16. March 2007.

² The *Lifestyle Aspirations* survey, conducted by Galaxy research on behalf of Commonwealth Bank in March 2006.

As this report will show, many Baby Boomers also now find that they are entering retirement with a mortgage. Some choose this outcome. However, others have simply not been able to pay down their mortgage fast enough. In previous generations, retiring with a mortgage would have been unheard of. Now a large number of people still need to make mortgage repayments even after they stop working. This raises the question of how people expect to repay their mortgage if they are no longer working. For many giving up work entirely will not be possible. Instead, it is expected that over the next few years more Baby Boomers will simply switch to fewer working hours rather than retire completely. Indeed, we are already seeing a change in the definition of retirement, with retirement no longer necessarily being defined by a complete disengagement from the workforce. Changes to superannuation and a negative perception of old age among Baby Boomers are also helping to drive this trend.

Baby Boomers need to find a way to bridge the gap between the life they want and the life their superannuation enables them to afford

The challenge for Baby Boomers as they move into retirement is to find a way to bridge the gap between the life that they would like to have and the life that their superannuation allows them to afford. Many baby boomers are 'equity rich', yet in terms of all other forms of wealth, they are relatively poor.

Builders

This section provides a portrait of the Builder generation. The Builders are the oldest segment of the Australian population, as they are above 60 years old. The youngest Builders are approaching 65 over the next couple of years. According to the ABS population projection there were 3.2 million Builders in Australia as of June 2007, accounting for 15% of the Australian population.

This section describes how Builders are in a very different position to other generations, including their unique situation of retiring with almost no superannuation and few assets able to provide them with a steady and secure income stream.

Builders have a strong work ethic and are loyal to family, work and brands

According to the McCrindle Research Generation Map Study 2005, the most common characteristics of the Builder generation include a strong work ethic and financial conservatism. They also have respect for authority figures as well as a commitment to a boss, industry or brand. This is quite an important factor for financial service providers, because if they can build a brand name that is recognisable and trustworthy, this could certainly enhance their sales proposition.

Life expectancy

The latest ABS statistics suggest that Australians who have reached 65 years of age can expect to live another 18.1 (men) to 21.4 (women) years. This figure is above the average life expectancy for Australian men (77.6) and women (82.8) between 2000 and 2005.

Wealth based primarily in property assets

A recent survey performed by AMP showed that 34% of household wealth is held by the Builder generation. This is over a third of household wealth and is well ahead of Generation X (24%) and Generation Y (3%). The only generation with a higher proportion of household wealth is the baby boomer generation (39%). While the Builders may have a high proportion of wealth, as seen earlier, the majority (60%) of their assets are 'tied up' in property. This group also has the smallest amount of superannuation, indicating that this generation is certainly asset rich but cash poor.

Retirement and the outlook for Builders

Builders see themselves as being youthful and vibrant for their age. The McCrindle Research study stated that Builders are more rational thinkers. This is certainly very different to Generation X and Y, who are far more emotional when making decisions.

The Builder generation is also seen as the most loyal generation, so much so that "Builders are 'rustled onto' a narrow collection of brands that make up their consideration set" (McCrindle Research). Builders are therefore loyal and view brands as a product identifier and indicator of trust.

Traditionally Builders have been frugal with their retirement savings, probably as a result of their asset rich, cash poor situation and their focus on their long term needs. They also tend to have a firm belief that they should leave their family property as an inheritance for their children.

Indeed, the SEQUAL-RFI study reveals that 75% of over-60s with children believed that the family home should be passed onto their children as inheritance. A further 9% of these respondents believed that a portion of the equity of the family property should be passed on, but not necessarily all.

Furthermore, there seems to be a correlation between age and the belief in passing the family home to children as inheritance. In total, 72% of respondent aged 60-69 stated that the family home should be passed on compared to 80% of those aged 70 and over. These results certainly reflect the common observation that many older and conservative



Australians are reluctant to sell their family home, seeing their family property as a 'legacy' to pass onto their offspring.

Chapter 2: Retirement and finances

This section draws upon a survey of 1,000 Australians aged 60 and over. It explores the financial status and arrangements of individuals who are either currently living in retirement or planning to retire in the near future. It also examines whether retirees are living in relative comfort as well as the different sources of income individuals rely upon once they leave the workforce.

The survey respondents

The survey sample was split 40% male and 60% female, with every age group from 60-64 years to the over 75s represented. All states and territories of Australia were represented, with one third of all respondents (33%) residing in New South Wales. Respondents from Victoria and Queensland made up 25% and 20% of respondents respectively.

Over 81% of all respondents were retirees. In total, 62% of 60-64 year-olds were retired and this proportion increased accordingly with age. Respondents worked or had worked in diverse occupations such as clerical (16%), executive/management (12%), teaching (12%) and a further 9% were business owners.

In terms of the marital status of respondents, 60% were married and 21% were widowed. Married respondents were more likely to have children than those who were single, widowed or living in a de facto relationship – only 4% of married respondents were without children compared to 34% of singles. The large majority of respondents had children (90%) and no dependents to support (93%).

Almost 87% of over-60s owned the home in which they lived, with a further 9% owning both a home and an investment property. The proportion of respondents with both a home and investment property directly correlates to the annual household income of the respondent. For example, only 6% of respondents with a household income of \$20,001-\$40,000 owned both a home and an investment property compared to 28% of those with a household income of \$100,000 or more. While the large majority of retirees owned their property outright, 7% were still paying off a mortgage.

The average age at retirement is 60

According to studies published by the ABS in 2006, the average age at retirement for people aged 45 years+ that have recently retired (in the last five years) was 60 years. Women were more likely to retire three years before men – the average retirement age was 58.3 years for women and 61.5 years for men.

These ABS statistics are backed up by the SEQUAL-RFI Study, which reveals that many respondents retired at 60 years of age. Of those individuals aged 60-64, 59% had been retired for less than 5 years and a further 26% had been retired for 5-10 years. As one might expect older respondents were more likely to have been retired for longer, with half of 65-69 year-olds having been retired for 5-15 years and 63% of over 75s retired for more than 15 years.

Many individuals decided to retire when they have accumulated enough money to live off

Clearly it is important for any individual to ensure that once they leave the workforce, they have enough money to support themselves during retirement. For many, the decision to retire often rests on having built up sufficient funds to be able to live comfortably in later life. In a household survey recently conducted by the ABS, the main reason for individuals ceasing their last job was due to 'reaching retirement age or being eligible to receive superannuation or the pension' (34% of survey respondents). Other main reasons included sickness, injury or ill health (26%) and 'being retrenched, dismissed or no work available' (11%).

This finding is highlighted by the SEQUAL-RFI study, which asked what the key financial considerations were when considering retirement. In total, 42% of retired respondents stated that they ensured that they had enough money to live off prior to retiring. A further 18% said they ensured that they had enough money to be able to enjoy later life.

Some 5% of respondents decided to retire because they had paid off all outstanding debt (especially mortgage) and were content to live off their pension and superannuation.

Wealthier individuals tended to have private health insurance

Aside from financial considerations, health is also of major concern for ageing individuals. Approximately 11% of survey respondents were forced into retirement because of injury or declining health – not because they had built up their desired level of wealth for their retirement. While all Australian seniors are eligible for Medicare rebates and other benefits as part of its Aged Care program, many individuals also choose to obtain private health insurance.

More than two thirds of respondents – 68% – stated that they had private health insurance while the remaining 32% used only government-funded Medicare. This percentage of individuals with private health insurance was fairly consistent across the age brackets, which

suggests that an increase in age does not necessarily translate to a higher tendency to obtain private health insurance.

However, though age does not seem to play a factor the proportion of individuals with private health insurance was closely correlated to the affluence of the respondent. While 43% of over-60s with less than \$20,000 had private health insurance, this percentage increased steadily to 76% for those with an annual income of \$100,000-\$120,000. It is also significant that all 43 respondents with over \$120,000 in household income stated that they had private health insurance. Clearly, the decision to have private health insurance seems to be a matter of whether individuals can afford to be covered rather than their age.

More than one third of over-60s do not have superannuation

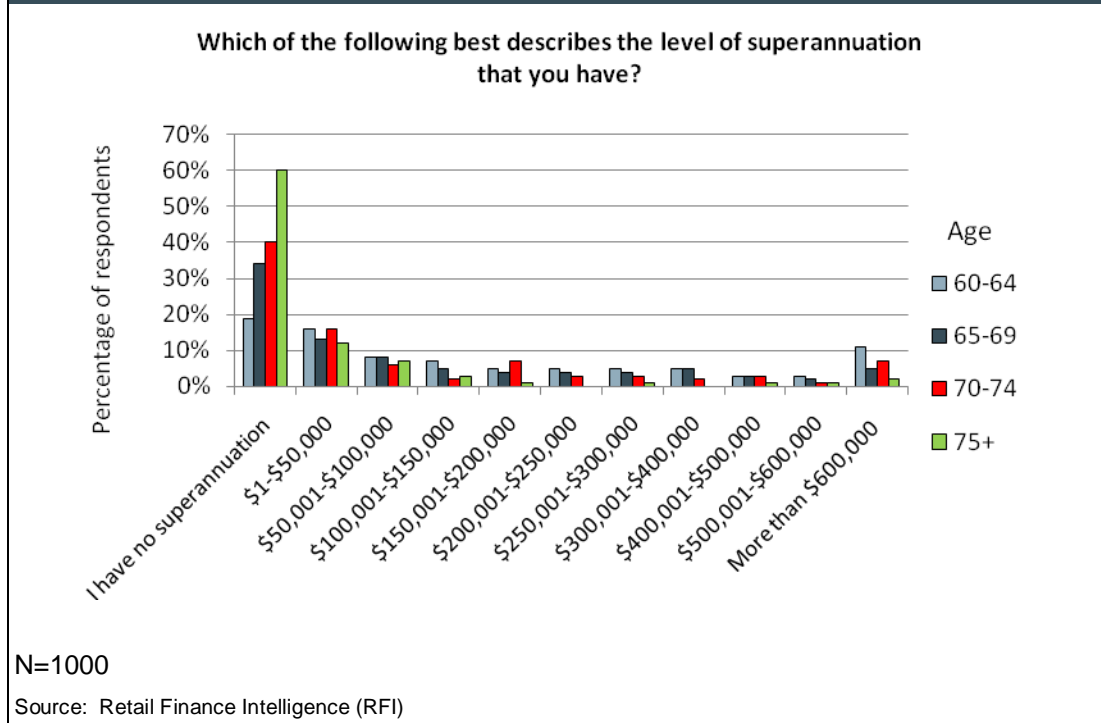
The current compulsory superannuation system was introduced in 1992 under the Keating government. For many Builders and early Baby Boomers, 'superannuation guarantee' only became law towards the end of their working careers which means that these older Australians were not able to benefit from a long period of enforced savings.

The impact of this superannuation reform has resulted in a superannuation 'imbalance', whereby older Australians who have little or no superannuation are forced to rely on other sources of income to live off during retirement, such as Age Pension.

This imbalance is especially pronounced in the SEQUAL-RFI study, which shows that 35% of over-60s did not have any superannuation and that a large proportion of these individuals were made up of older respondents aged 70 and over. While only 19% of 60-64 year-olds had no superannuation, this percentage increased to 34% for 65-69 year-olds and 40% for 70-74 year-olds. Significantly, 60% of over-75s stated they had no superannuation.

The reasons for such a high proportion of over-60s without superannuation are twofold. As discussed earlier, many older Australians missed out on the 'superannuation guarantee' scheme and hence never had the opportunity to build up their superannuation during their working years. Another reason is that older respondents who did have superannuation when they were younger have already exhausted their superannuation funds. It should be noted that only 9% of over-75s stated that they had \$100,000 or more in their superannuation.

Figure 1: More than one third of over-60s did not have superannuation, which means that many of these individuals have to rely on other sources of income to fund their retirement

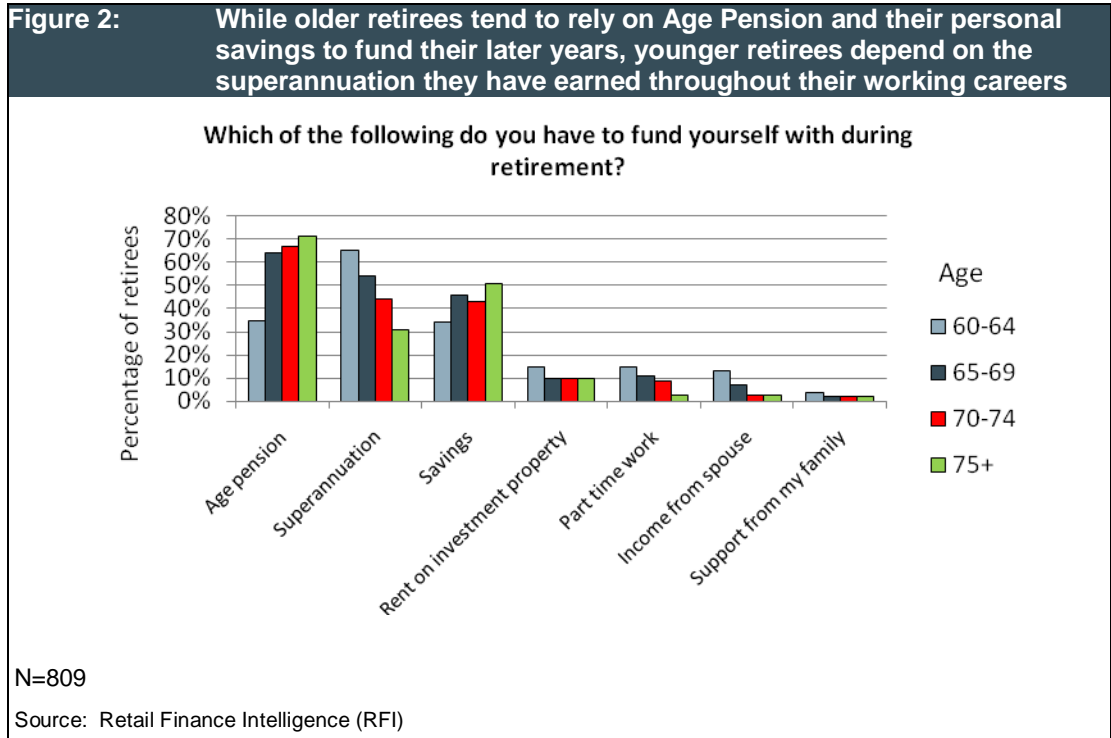


Older retirees tend to rely heavily on Age Pension

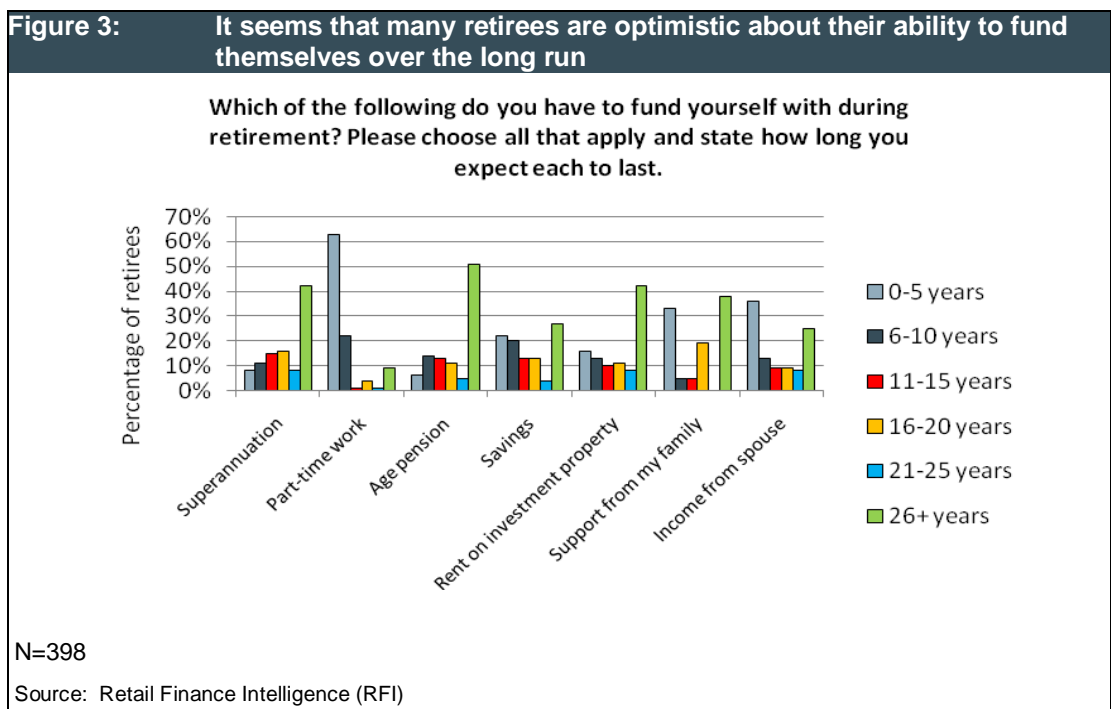
With such a majority of older retirees having missed out on compulsory superannuation contributions during their working years, many now find themselves depending on Aged Pension and personal savings to fund their retirement years.

When retired respondents were asked to state the different sources of income they rely on during retirement, 59% stated they depended on the Age Pension. Currently individuals need to be 65 years or older to be eligible for Age Pension, although the qualification age for women depends on their year of birth. Eligibility for Age Pension also depends on other factors such as residential requirements and the individual's level of income and assets.

Survey results show that while 35% of 60-64 year-old retirees receive a government pension, this percentage increased to 64% for 65-69 year-olds and 71% for over-75s. While it is clear that more senior retirees depend on government financial support, retirees in their early 60s mostly depend on funds they have saved up during their working years with 65% of 60-64 year-olds sourcing funds from their superannuation and a further 34% drawing on their personal savings.



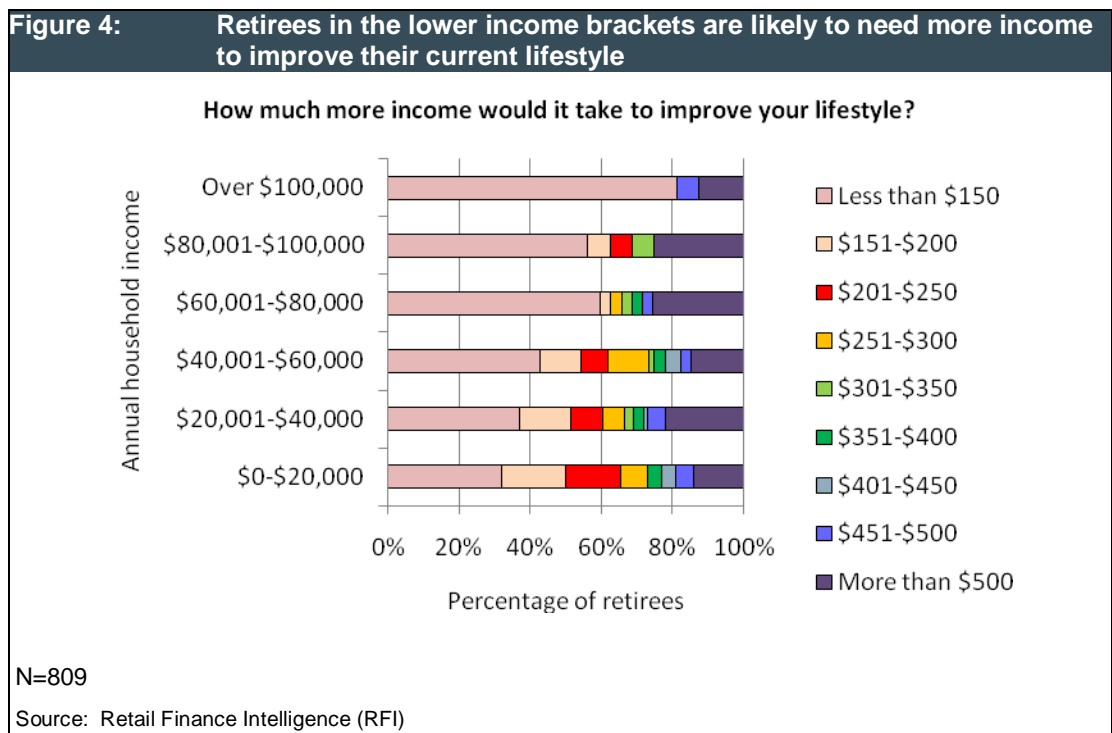
It is equally important to establish whether these sources of income are sufficient to fund individuals during their retirement and how long retirees expect their funds to last. Survey results indicate that whilst income from part-time work was likely to be exhausted by the 10-year mark, many retirees were optimistic about their current level of income in funding their retirement over a long term.



For example, half the respondents who had superannuation expected that it would be able to support them for over 20 years in retirement. Respondents were equally optimistic about the rental yields from their investment property and Age Pensions in funding them over the long term, with 50% and 56% expecting these regular payments to support them for over 20 years in retirement respectively.

In terms of whether these retirees were happy and comfortable with their lifestyle, RFI asked respondents to consider how much more income it would take to improve their lifestyle. The positive news is that many retirees did not seem to be in financial predicament, with 28% of respondents stating that they would need less than \$150 per month. A further 22% stated that an extra \$151-\$300 would improve their current lifestyle.

Of course, it is difficult to measure how content individuals are with their lifestyle when there are many other factors – such as whether they have dependents or a spouse, their current level of expenditure, their preferred standard of living etc. – which need to be taken into account. What the results from the SEQUAL-RFI Study do suggest is that a considerable portion of retirees get by with their current financial arrangements and that it would not take a great deal to improve their lifestyles in retirement.

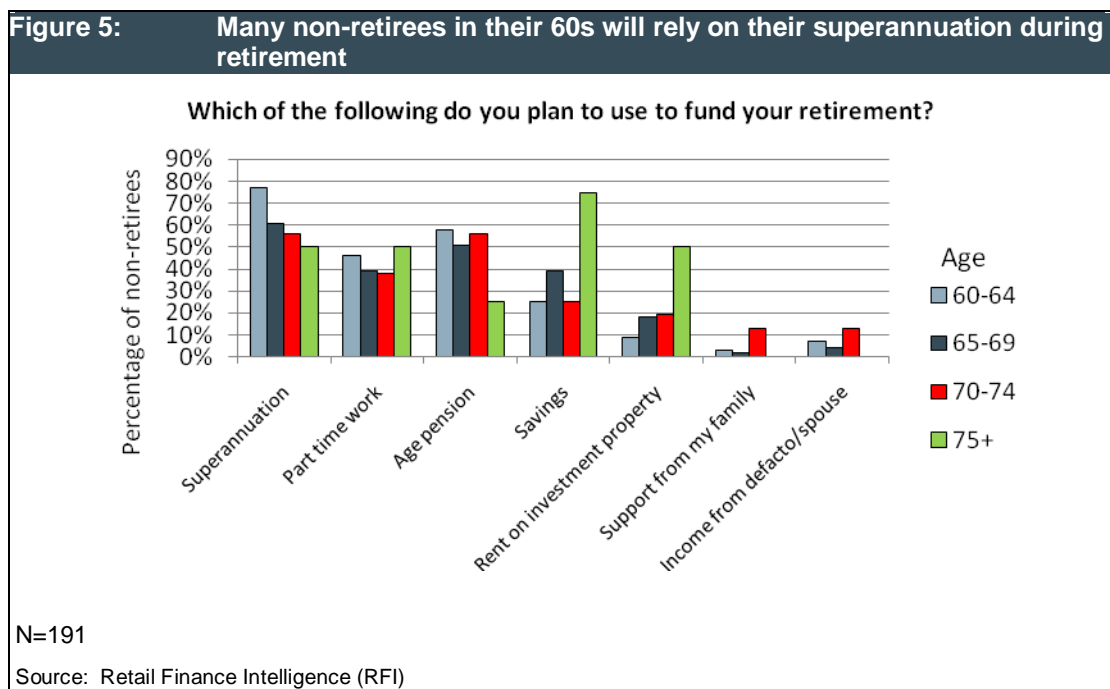


Many over-60s who are still in the workforce plan to use their superannuation to fund their retirement

To this point this report has focused on retirees and their current standard of living. However, it is likewise important to examine whether individuals presently in the workforce and who are planning for their impending retirement are confident about their ability to fund themselves when they retire. This section focuses on non-retirees as well as their financial expectations and goals for retirement.

Of the 191 respondents who had not yet retired at the time of this survey, 90% were in their 60s and only 2% were over the age of 75. Although most of these individuals already qualify for Age Pension and have reached the preservation age needed to access their superannuation and other benefits, it is likely that these individuals are working later in life – either by choice or necessity – in order to lessen or clear their debt and to build up more savings for their retirement.

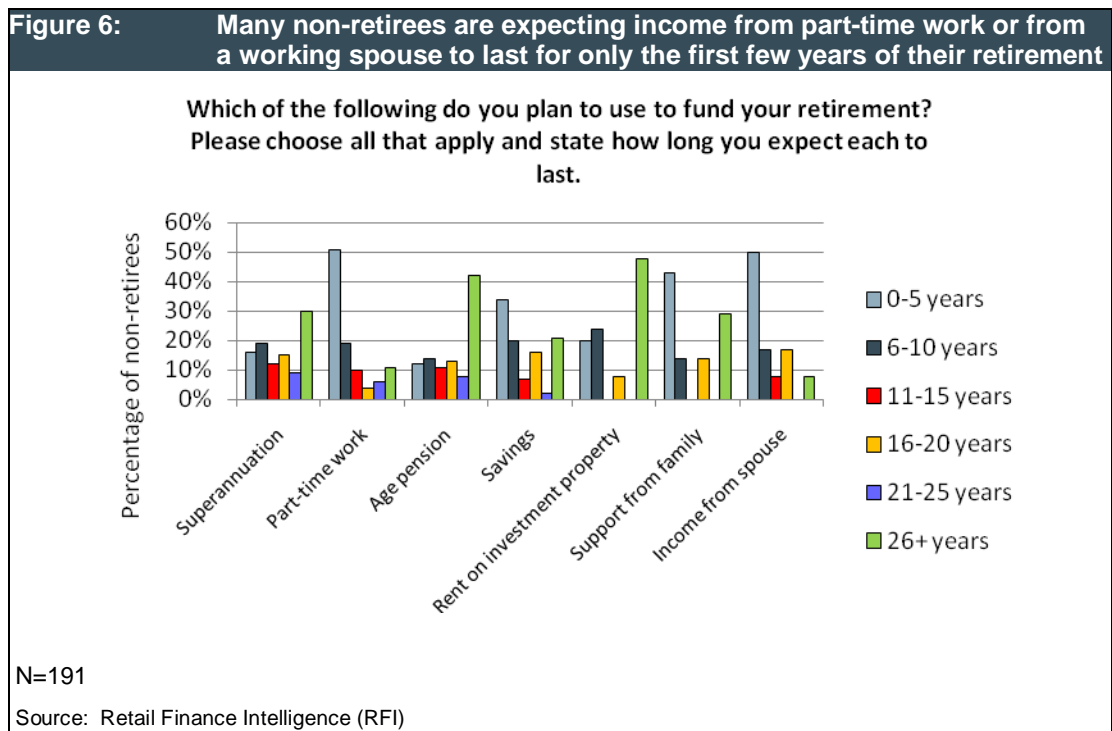
To test how these individuals plan to support themselves during retirement, RFI asked non-retirees to state the different sources of income they expect to live off when they retire. Whereas older retirees place greater emphasis on Age Pensions as a source of funds for retirement, younger individuals in their 60s who are still working are more likely to depend on their superannuation and income from part-time work. Again, this is to be expected as younger individuals are more likely to benefit from compulsory superannuation contributions that have been built up over a long period of time.



Interestingly, individuals planning to retire soon seem to be less optimistic about their ability to support themselves over the long term than those that are already retired. For example, although 71% of non-retirees stated that they planned to use their superannuation to fund their retirement, more than one third believed that their superannuation would only last up to 5 or 10 years. It equally should be noted that more than a third of non-retirees (34%) expected their personal savings to be exhausted by the 5-year mark.

Accounting for this relative pessimism among non-retirees is difficult, although it is possible that those who have already retired have a better sense of their budgeting and financial capabilities than those who are still planning for their retirement. Much of it also depends on the type of lifestyle these non-retirees are aspiring to, and whether they believe they have saved up enough to support the level of expenditure they prefer to have during retirement.

Still, a fair portion of non-retirees appear to be confident about their ability to support themselves over the long run, with almost half of respondents expecting their Age Pension and rental income from investment property to support them for over 20 years.



Almost 40% of over-60s are planning to be retired for more than 15 years

No matter what their current age or level of health, many individuals plan for a long retirement to ensure they will always have sufficient funds to live off and that 'money-worry' does not hamper their enjoyment of later life. Medical and technological advancements mean that life expectancy has increased dramatically; in fact, Australians have an average life expectancy that compares well with other developed nations in the world.

The SEQUAL-RFI Study confirms that many non-retirees over 60 are planning for longer retirement periods and that the decision to retire will largely depend on having saved up enough money to live off. Almost 40% of these non-retirees stated that they planned to be retired for more than 15 years, with 19% planning to be retired for more than 25 years. A large proportion of these individuals were early Baby Boomers in the 60-64 age group, who are expecting to enjoy a longer and better quality of life than previous generations.

But more than one third are planning to be retired for less than 5 years

However, there is considerable concern for the 34% of non-retirees who stated that they were planning to be retired for only 5 or 10 years. In fact, results from the SEQUAL-RFI Study show that 35% of 60-64 year-olds were planning to be retired for less than 5 years and a further 15% were planning to be retired for 5-10 years.

A possible reason for this is that these respondents were planning to remain working until later in life, and hence not expecting to be able to enjoy a prolonged retirement. Another reason is that these early 60 year-olds were planning to 'retire' from the workforce for a few years before returning back to work on a casual or part-time basis, although this is not strictly defined as 'retirement'.

According to ABS statistics, a 65 year-old male in 2005 can expect to live another 18.1 years while a 65 year-old female can expect to live another 21.4 years. While life expectancy depends on numerous biological, physical, environmental and lifestyle factors, these projections nonetheless highlight the considerable 'gap' between the average lifespan and the number of retirement years expected by these early Baby Boomers.

Many individuals are ensuring they have enough money to live off in retirement before they leave the workforce

It was previously established that ensuring there is enough money to live off during retirement is a key financial factor when deciding to retire. To be precise, 60% of retired respondents decided to retire when they felt that they had enough money to live off or that they had money to enjoy their later life.

This picture is no less different for those individuals planning for their near retirement, with 51% of non-retirees stating they will need to consider whether they have enough funds to live off during retirement. Another 26% of non-retirees want to ensure that they have enough money to enjoy their retirement before they leave the workforce.

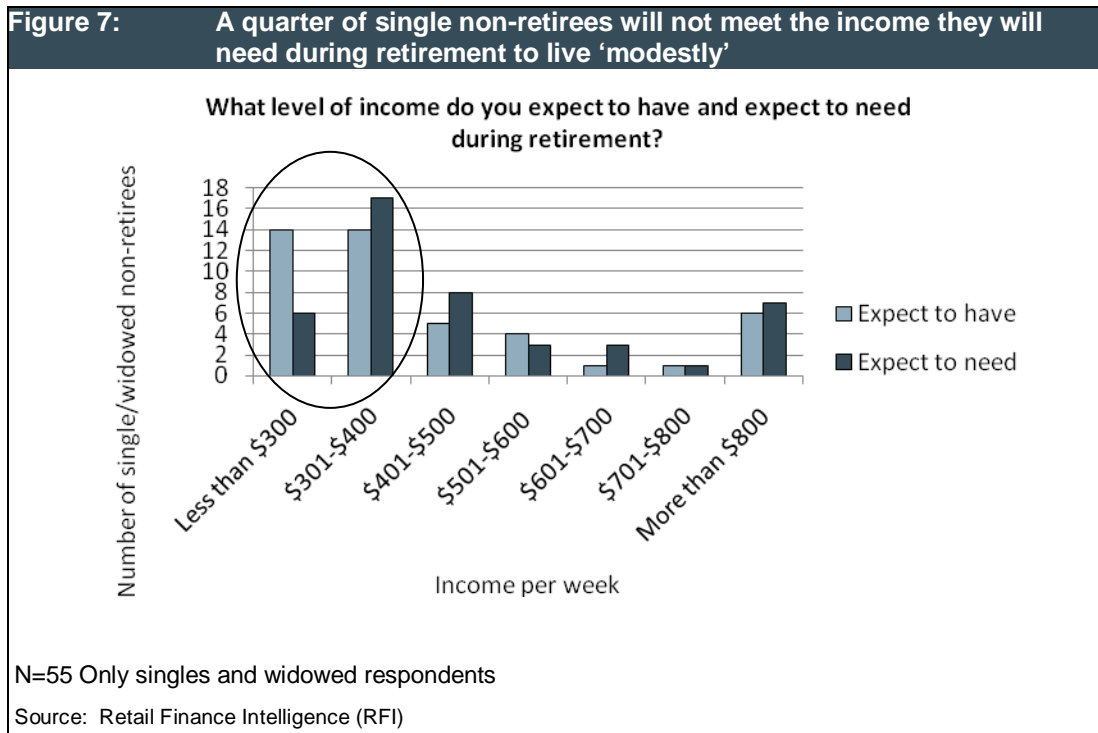
Half of single or widowed non-retirees expect to have less than \$400 a week during retirement

It is important to examine whether these working individuals expect to have a sufficient level of income to live off during their retirement. One interesting study on the cost of retirement living is the Westpac-ASFA Retirement Standard, which provides detailed budget breakdowns for singles and couples wishing to endorse either 'modest' or 'comfortable' lifestyles. This study has also concluded that over the last three years the cost of a 'modest' standard of living in retirement increased by 8.8% and for a 'comfortable' retirement by 8.1%.

According to this Standard, a single 'modest' female can expect to spend \$357.74 per week on housing, energy, food, personal care, household goods, clothing and footwear, transport, health and leisure activities. On the other hand, a 'comfortable' single should expect to spend around \$693.11 per week. While these estimates are best interpreted as benchmarks, they nonetheless offer a good indication of the costs associated with retirement living.

The SEQUAL-RFI Study shows that if this Retirement Standard was taken into account, 25% of non-retired singles/widows will fall short of even the 'modest' target of \$357.74 per week. Results show that 25% of non-retired single/widows expected that they would have less than \$300 per week and a further 25% expected that they would have between \$301 and \$400 per week to live off during retirement.

By the same estimates, it seems that only a small percentage of non-retired singles and widows will be expecting to live a 'comfortable' lifestyle during retirement, with 13% expecting to have more than \$700 per week when they retire.



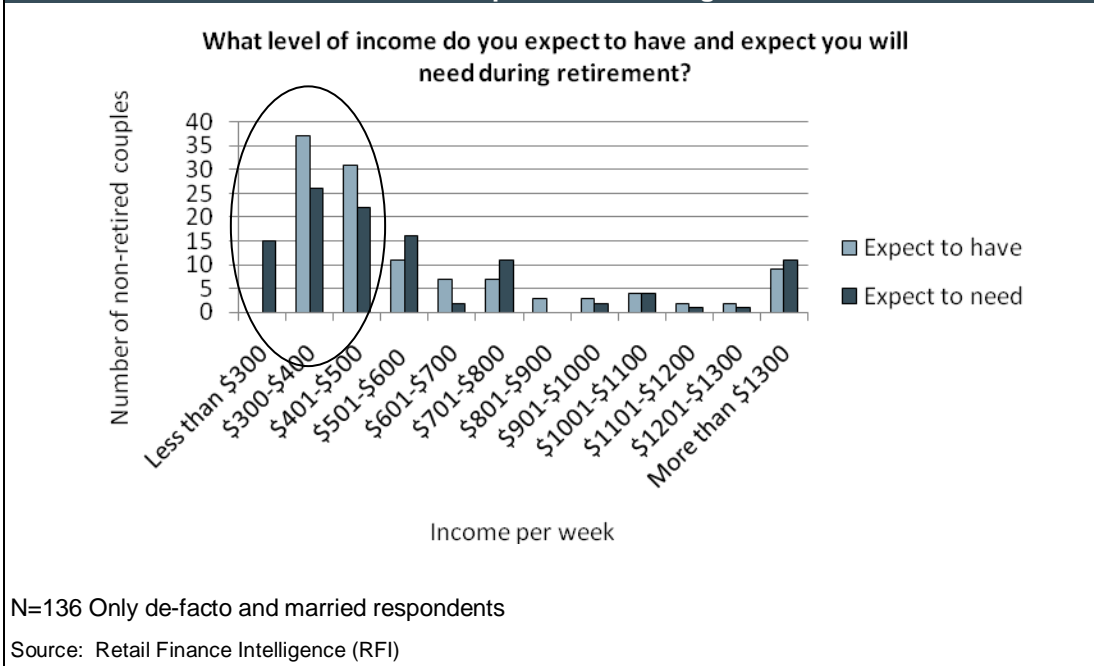
Half of non-retired couples expect to have less than \$500 a week during retirement

The Westpac-ASFA Retirement Standard also states that a 'modest' couple can expect to spend \$501.59 per week while a 'comfortable' couple can expect to spend around \$927.72 per week.

Again it is interesting to consider these estimates in light of the SEQUAL-RFI Study, which reveals that 27% of non-retired couples expected to have less than \$400 per week and a further 23% expected to have between \$400 and \$500 per week. This means that by the benchmark of the Retirement Standard 50% of those non-retired couples will fall short of the 'modest' target of \$501.59 per week.

The flipside is that many couples are expecting to have enough funds for their retirement. At the lower end of the income scale, while 57% of non-retired couples stated that they expected to need less than \$500 per week during their retirement 59% stated that they expected to be able to have the same amount to live off when they retire. This suggests that couples in the lower-middle income brackets are confident about their ability to fund their retirement years as they are exceeding their own income expectations.

Figure 8: Many de-facto and married non-retirees are expecting to comfortably meet their financial expectations during their retirement



Chapter 3: The family home and aged care

It is often the case that older individuals with declining health are forced to consider what to do with the family property if they need to be admitted to a nursing home or special care facility. This chapter focuses on the attitudes of over-60s towards the family home and the costs associated with aged care.

More than four-fifths of over-60s believe the family home should be passed on to their children

It is a common observation that many older Australians see their family property as a legacy and as an asset to pass onto their children. Often the family property has been occupied by many generations within the same family, and so the idea of passing the property onto the next generation is all part of family tradition.

The SEQUAL-RFI Study confirms this social convention of passing on the family home, with 75% of over-60s stating that the property should be passed on to their children as inheritance. In addition, a further 9% stated that a portion of the value of the property should be passed on – but not necessarily all. This means that a large proportion of over-60s believe that the family home represents a ‘gift’ for their children. Selling or parting with the family home is, therefore, an unappealing concept for many older Australians.

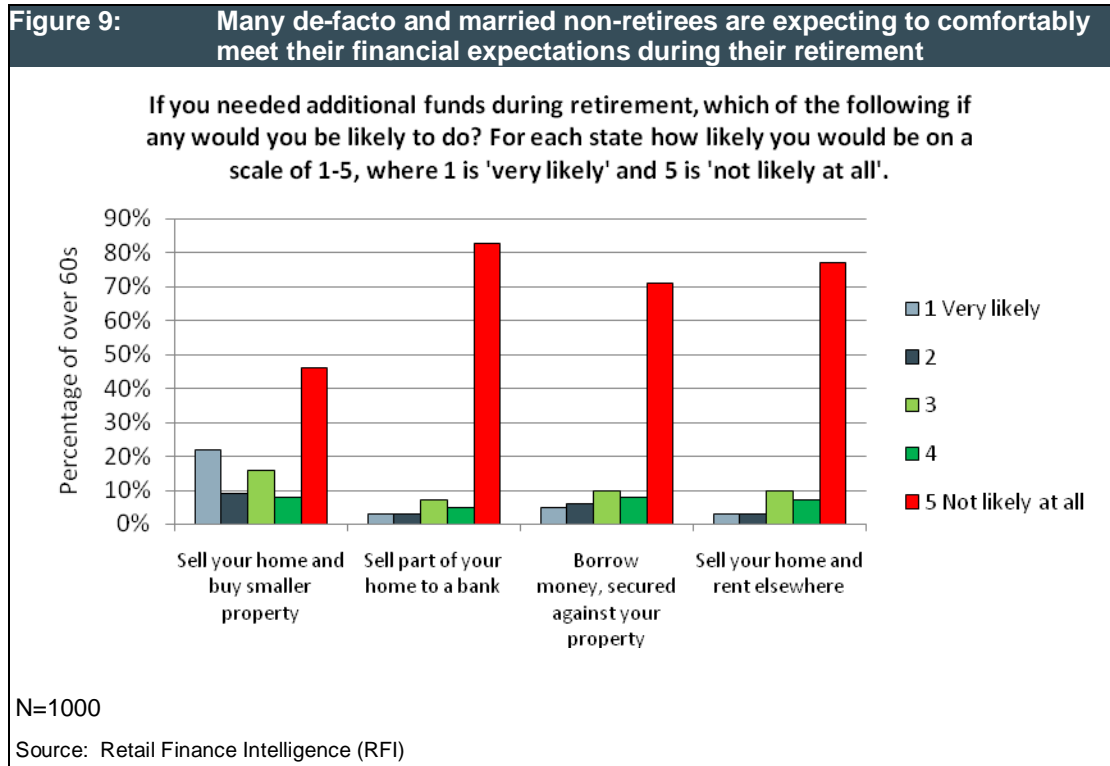
Cash-poor individuals are most likely to sell their home to buy a smaller property

Although the majority of Builders and early Baby Boomers own their family property outright, many are short of income to live off during retirement. Significantly, it was shown in the first chapter that while Builders tend to have a large proportion of personal wealth, approximately 60% of their assets are ‘tied up’ in property. This group of individuals are also likely to have little or no superannuation.

The ‘asset rich-cash poor’ situation of the Builders certainly means that some of these individuals will need to utilise their property – or to release some of the property’s equity – in order to fund themselves during retirement.

It also seems that over-60s have a greater preference to sell their home to buy a smaller property if they need to generate additional funds during their retirement. In total, 22% of respondents stated that they would be very likely to sell their home and buy a smaller property. A further 9% of respondents stated they would be somewhat likely to do so. The

issue with such a move is that in many cases, buying a smaller property means moving to a different suburb.



However, it is interesting to note that older individuals are more reluctant to sell their family home. While 26% of 60-64 year-olds stated that they would be very likely to sell their family home to buy a smaller property, this percentage of willing respondents decreased to 17% for 70-74 year-olds and to 15% for over-75s. Clearly, older and more traditionally minded Australians are more attached to their family property and hence more disinclined to part with it.

Other methods of generating additional funds 'using' the value of the property were not so popular. The large majority of respondents stated that it is very unlikely that they would sell a portion of the family home to a bank (83%), borrow money which is secured against their property (71%) or sell their home to rent another property (77%). These results all suggest that owning property – particularly owning the entirety of a family property – is an important part of the Australian psyche.

Lower income earners are more likely to sell their family home if they need to move into aged care

Despite this general reluctance to sell the family home, some individuals will have to do so if they need to move into aged care or a retirement village. As the SEQUAL-RFI Study shows,

lower income earners are most likely to sell their family property if they need to move into an aged care facility.

Of those respondents with an annual household income of less than \$20,000, 38% stated that it was very likely that they would sell their family home if they need to move into aged care. Only 22% of respondents with an income of \$40,001-\$60,000 said they were very likely to sell, and this proportion dropped off to 14% for those with \$100,001-\$120,000.

Clearly, for those people in the lower income brackets there is greater chance that they will need to sell the family property in order to fund their move into an aged care facility. However, besides financial considerations there are also emotional factors that might persuade individuals to give up their family property to move into aged care, such as the desire for company and friendship.

For example, it was found that single and widowed respondents were more likely to sell their family home if they need to move into aged care than their couple counterparts. In total, 36% of single/widowed respondents stated that it was very likely that they would sell their family home compared to 29% of married and de-facto respondents.

More than one third of over-60s believe it is unlikely there will be a space for them if they move into aged care

Admission into aged care is based on whether a suitable aged care facility has a vacancy and is able to cater for each individual need. Individuals contemplating the move into aged care will need to be assessed in terms of the level of care they need and whether home care services and programs can help them while they are still living at home.

There have been numerous media reports highlighting the issues faced by the aged care industry, such as the lack of trained staff, nurses and facilities. Compounding this issue of shortage is that Australia's population is steadily ageing and, as a result, there will be extra demand for aged care services and facilities in the years to come.

And it seems that these issues are felt by many over-60s. When asked how likely they believed there will be a space for them if they move into aged care, around 23% of respondents stated this would not be at all likely. A further 13% of respondents stated that they believed it would be unlikely that there will be a vacancy for them at an aged care home.

At the other end of the spectrum, 12% of respondents believed it is very likely that there will be a space for them. Although these results indicate a general belief that there is a shortage

of aged care facilities and resources in Australia, the likelihood of admitting into an aged care home – whether a low-level care hostel or a high-level care nursery home – would depend on many factors such as the level of income and assets, health and other personal circumstances.

Around half of over-60s did not know what entry costs and ongoing fees for aged care would be like

The Department of Health and Ageing recently increased the costs of residential aged care, including the maximum daily care fees and permissible interest rates on accommodation bonds and charges. The new rates came into effect from 20 September 2007 and the changes are divided into levels of assets and income, as well as marital and pension status. Entry costs into aged care are thus dependent on these factors, and vary according to the level of care and the required accommodation bond of the facility.

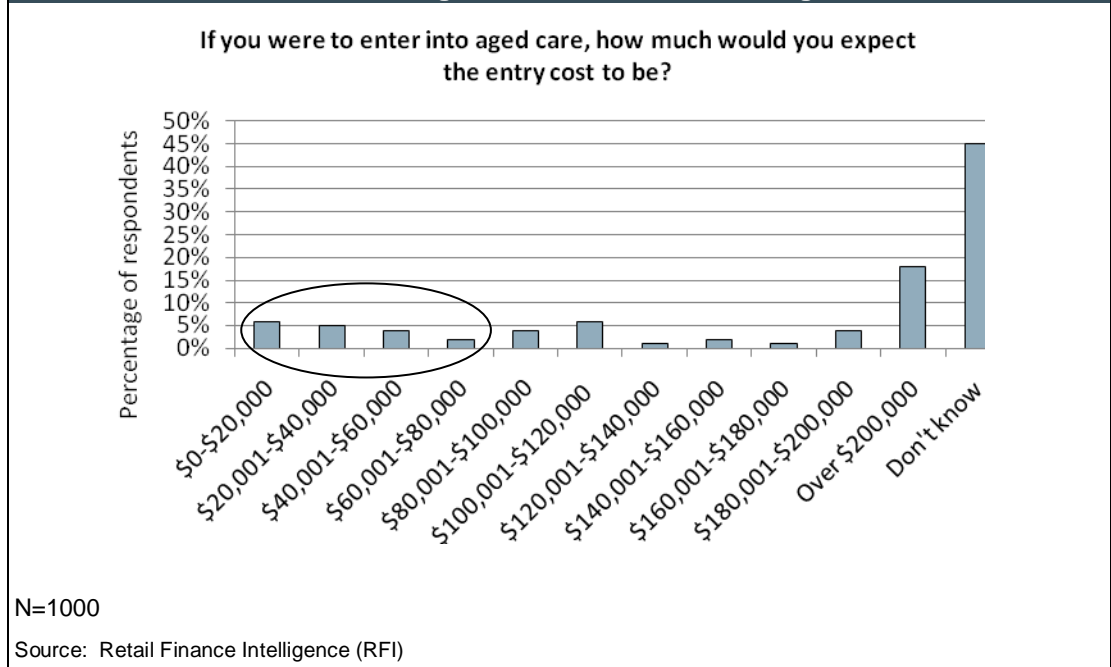
When asked to consider how much they expect the entry costs into aged care would be, 45% of respondents stated that they did not know. The fact that such a large portion of respondents had no idea what entry costs into aged care suggests that many over-60s do not give much thought about living in aged care or retirement villages as well as the associated costs – either because they are not foreseeing declining health and/or that there is a strong preference for living at home.

A recent paper published by Jones Lang LaSalle emphasises this high cost of retirement living.³ According to its research, entry costs for retirement villages in Australia range between \$50,000 and more than \$1 million, while entry costs for assisted living facilities range between \$50,000 and \$250,000. Increasing level of care service means increasing entry costs and ongoing fees, and so new residents at aged care facilities – whether high-care nursing homes or low-care hostels – may well expect to pay at least \$150,000-\$200,000 in accommodation bond upon admission.

Taking these figures to mind, it appears that many over-60s may fall into the danger of underestimating the costs of moving into aged care or a retirement village.

³ 'Seniors Living: Can Australia learn from the USA? A comparison between seniors living communities in Australia and the USA', Jones Lang LaSalle. March 2007.

Figure 10: 45% of over-60s did not know what entry costs into aged care facilities would be like, and many are underestimating the high costs associated with aged care and retirement villages

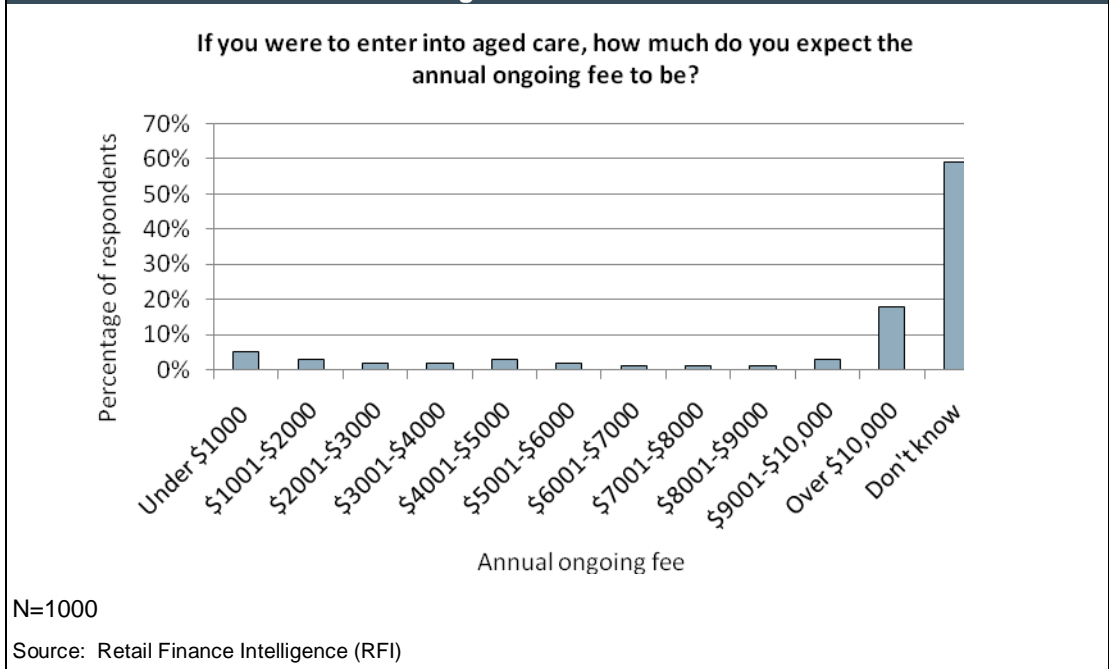


While almost half of respondents did not know what the entry costs into an aged care facility would be, an even larger proportion of respondents had no idea what ongoing fees for aged care would entail. In total, 59% of respondents stated that they did not know how much they would expect to pay in ongoing fees for aged care compared to the 45% who did not know what entry costs would be like.

This general lack of awareness of the high costs associated with living in aged care facilities suggests that many older Australians might be financially unprepared or burdened in making the move from home into aged care or retirement villages. At present, new residents at Commonwealth-funded aged care facilities are allowed up to 6 months from the time of admission to pay the accommodation bond and any interest accrued over this period – currently the maximum permissible interest rate applicable to the bond over this period is 10.75%.

This 6-month ‘pay-up’ period means that new aged care residents previously unaware of – or that have underestimated – the high costs associated with moving into aged care would have little choice but to sell their home to pay the bond. This is where wider education of the financial impact of moving into aged care could better equip older Australians – financially and emotionally – even if they do not foresee or plan to move into aged care in the near future.

Figure 11: Of some concern is that the majority of respondents over 60 did not know how much to expect for entry costs and ongoing fees if they were to enter into aged care



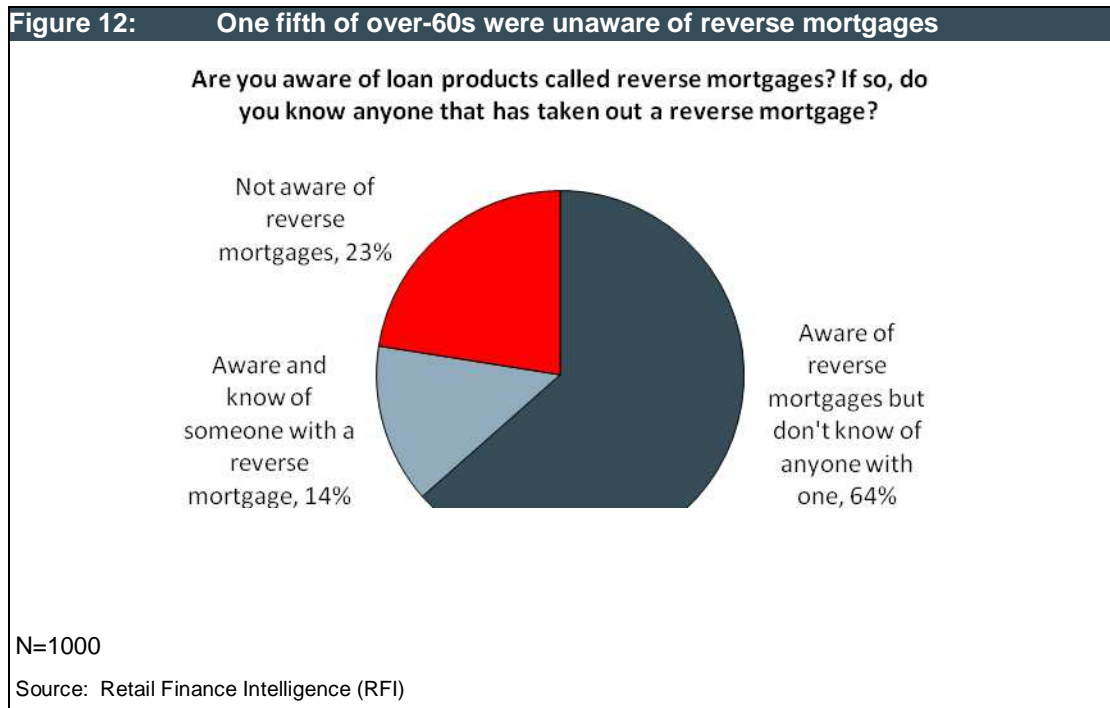
Chapter 4: Awareness of reverse mortgages

In the last few years many home equity release products have been made available in Australia that cater for older individuals who find themselves asset rich, yet cash poor. One example of such product is the reverse mortgage, now offered by some domestic banks and other mortgage specialists. This section examines the general awareness of these reverse mortgage products among over-60s.

More than three quarters of over-60s are aware of reverse mortgages

While the home equity market in Australia is still relatively young and niche, reverse mortgages, or lifetime mortgages, have been available in the US and UK markets for almost two decades.

The SEQUAL-RFI Study shows that 78% of over-60s in Australia had heard of reverse mortgages and 14% knew someone who had taken out a reverse mortgage. These statistics suggest that awareness of such loan products is quite high and that many older Australians have second-hand experience and knowledge of reverse mortgages.

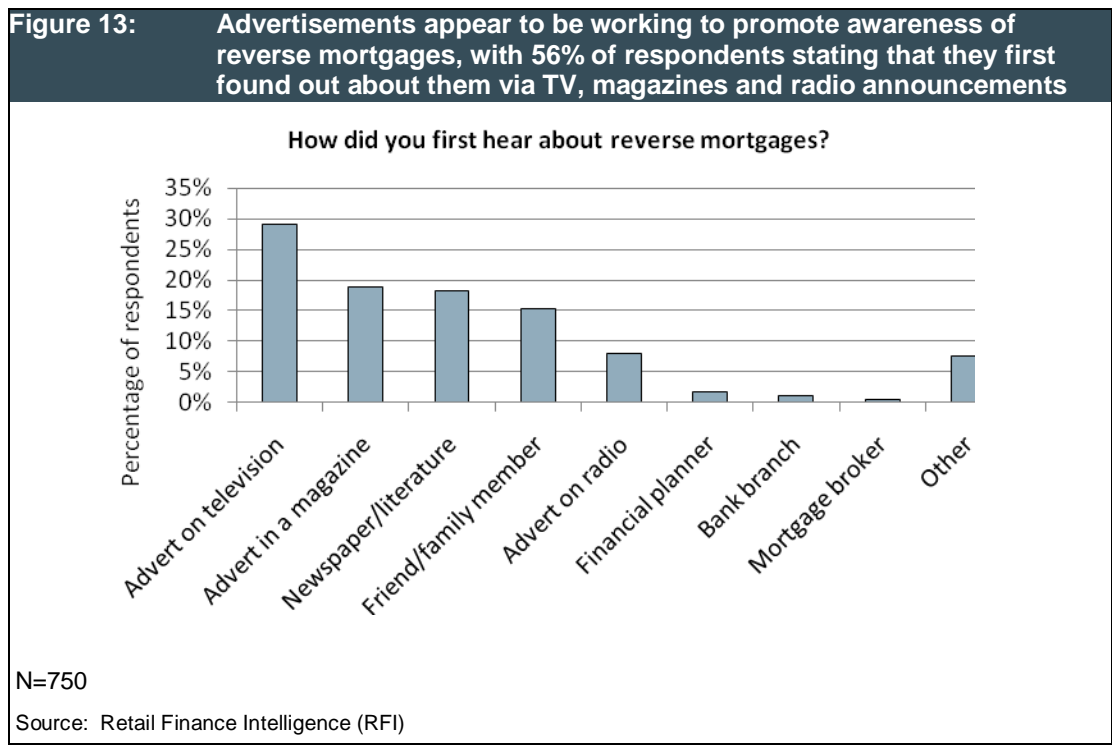


Advertisements seem to be working in promoting awareness of reverse mortgages

Since reverse mortgages are still relatively recent phenomenon in Australia, it is important to understand how these over-60s first found out about such products. By determining these individuals' source of information, mortgage lenders and other industry bodies can establish the best means of raising the profile of reverse mortgages in Australia and educating the over-60s.

According to the SEQUAL-RFI Study, the large majority of over-60s were first made aware of reverse mortgages by advertisements. More than half of the respondents stated that they first found out about reverse mortgages via adverts on TV (29%), magazines (19%) and radio (8%).

Other commonly cited sources included newspaper articles and other forms of literature and word of mouth, with 18% and 15% of respondents respectively. These findings suggest that adverts and media coverage greatly promote awareness of reverse mortgages, even more so than direct industry channels such as financial planners, bank branches and mortgage brokers.



Only half of reverse mortgage-aware respondents understood the basic concept of the product

While awareness of reverse mortgages seems to be high among over-60s, it is also important to examine whether these individuals actually understand the basic features of the loan product. In order to test their basic knowledge of reverse mortgages, respondents were presented with the following four statements and asked to choose all that are true of reverse mortgages:

- A reverse mortgage is a product that enables a home-owner over the age of 60 to:
- Sell part of their house in exchange for money
 - Borrow against their home without making repayments
 - Borrow against their home and repay the loan over their lifetime
 - None of the above

Reverse mortgages can be simply described as a loan that allows a home-owner over the age of 60 to borrow against their home without making repayments until they die, move into aged care or sell their house. Loan repayments and all the interest that has accumulated need to be settled only when the occupants of the house have permanently left.

With this in mind, respondents who only picked option (b) as the true statement were correct. The positive news is that 52% of respondents identified that statement (b) as the only true statement about reverse mortgages, which suggests that many over-60s who had heard of reverse mortgages also understood the basic features of the product. These respondents were mainly early Baby Boomers in their 60s who were financially better-informed and were exploring their income options for their retirement.

A further 21% of respondents selected statements (b) along with either (a) or (c) as true. While these respondents recognised that reverse mortgages allow home-owners to borrow against their property without repayments, many of them also thought that this type of loan would entail giving up ownership of the house i.e. sell a portion of it in exchange for money, which is not true.

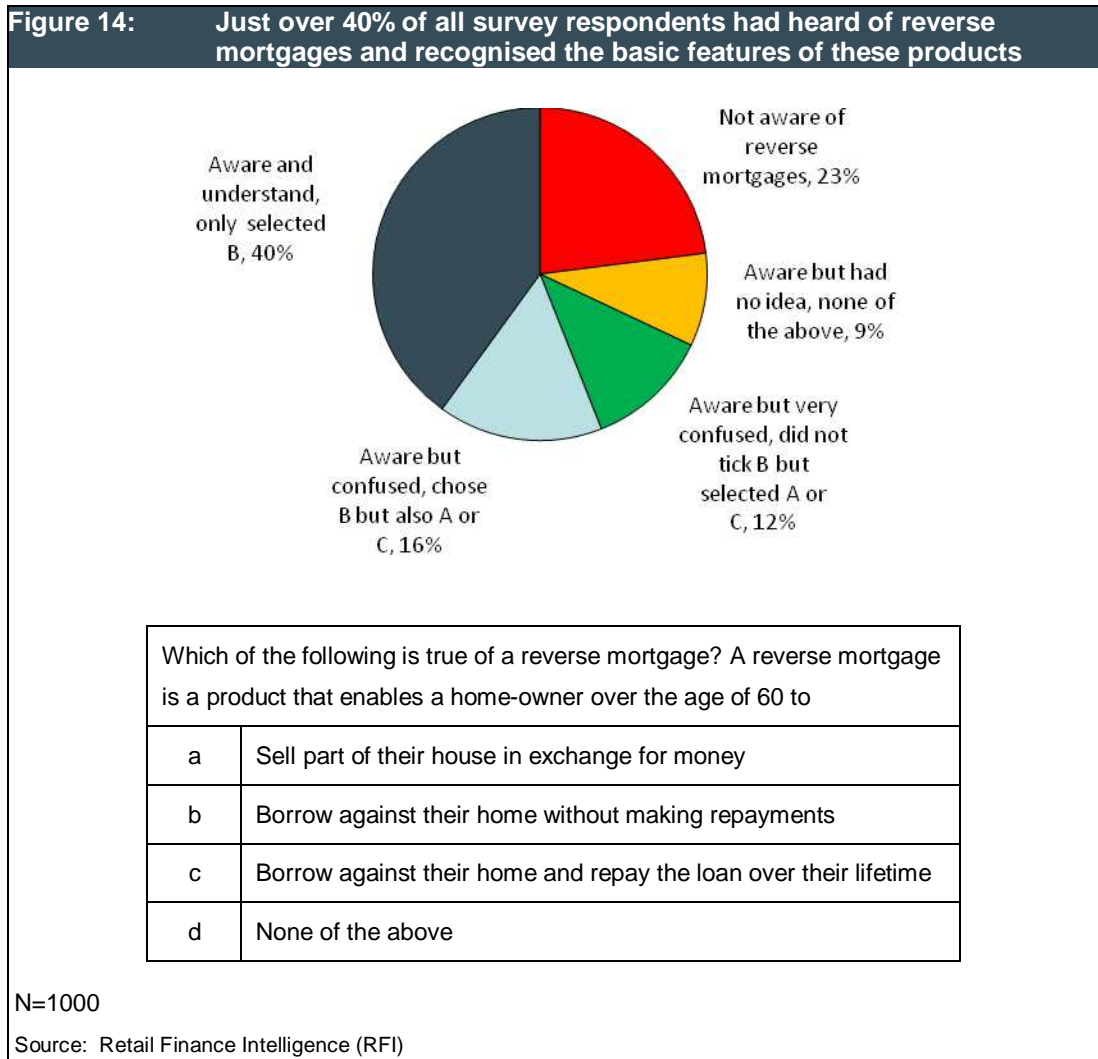
Meanwhile 16% of reverse mortgage-aware respondents did not select the correct statement (b), but instead chose either (a) or (c). These respondents were possibly confused and not entirely sure about the precise definition of a reverse mortgage. The remaining 11% did not believe that any of the statements about reverse mortgages were true.

These results highlight the fact that there is still considerable confusion as to how reverse mortgages work. Many respondents appear to know that taking out a reverse mortgage

means having an additional source of funds because the product is a means of releasing the equity of a property. However, some individuals were unsure about the finer features of the product, such as the fact that a reverse mortgage does not involve selling a portion of the house in exchange for money or that the loan does not involve repayments (unless voluntary) until the death or permanent departure of the borrower.

Awareness of reverse mortgage providers in Australia is also very low. In fact, only 4% of reverse mortgage-aware respondents were able to name three reverse mortgage providers. Currently there are more than 15 reverse mortgage providers operating in Australia.

Although this SEQUAL-RFI Study shows that 40% of over-60s are aware of reverse mortgages and understood its basic features, reverse mortgages still has a fair way to go in becoming a mainstream product in Australia. However, the progress is sure and steady and the reverse mortgage sector has been growing strongly. Of further encouragement to the growing reverse mortgage industry should be the fact that advertisements, literature and news coverage all appear to be working in raising awareness among consumers and raising the profile of reverse mortgages in Australia.



However, more needs to be done in educating consumers about the actual features of reverse mortgages. In many ways it is not constructive to have 78% of over-60s aware of reverse mortgages, but only 40% that actually understand the basic premise of the product. The role of educator has to fall to government and consumer associations who can tackle the issue without being seen to promote the product.

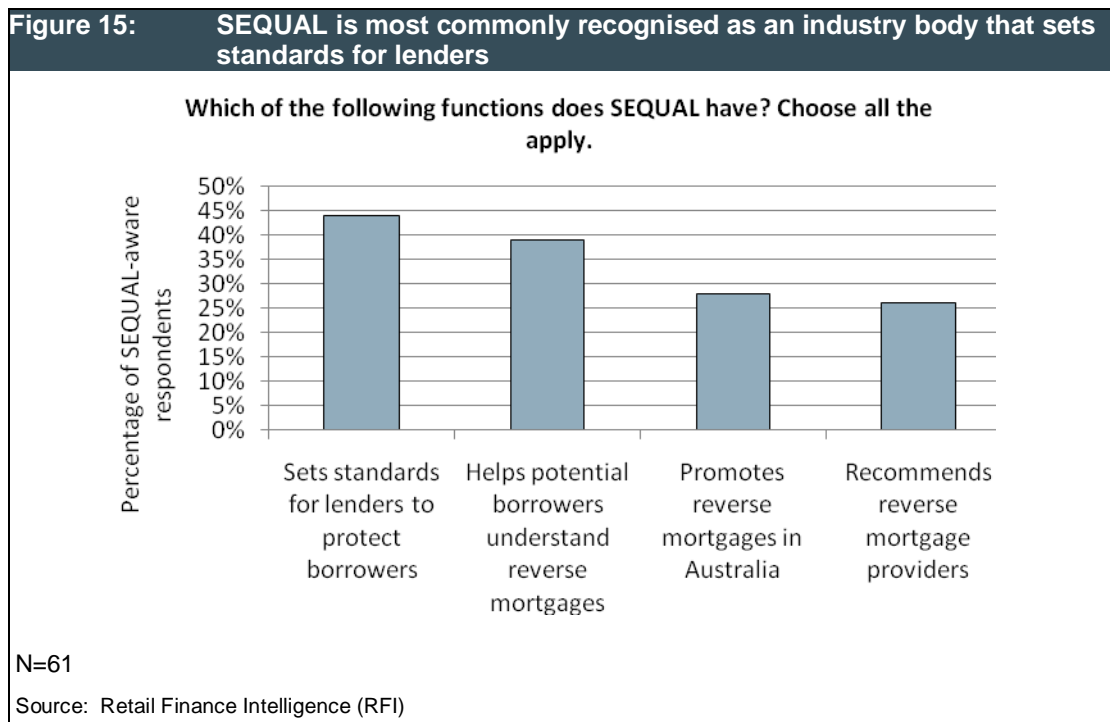
Awareness of SEQUAL is not high among over-60s

Senior Australians Equity Release Association of Lenders (SEQUAL) was launched in 2005 and is an industry body representing reverse mortgage providers in Australia. Since its launch SEQUAL has introduced a Code of Conduct, which is adhered to by all of its members. Part of the SEQUAL Mission is to protect seniors' finances and safeguard the Australian equity release lending sector.

However, public awareness of SEQUAL is not high as a proportion of all over-60s, with 8% of reverse mortgage-aware respondents stating that they had heard of the organisation. However, when this statistic is taken in the context of the proportion of over-60s that have a reverse mortgage (1.5%), awareness is relatively high.

The respondents who had heard of SEQUAL were then asked about the functions of SEQUAL. In total, almost half of these respondents recognised that SEQUAL sets standards for lenders to protect borrowers and a further 39% recognised that the organisation helps potential borrowers understand reverse mortgages.

On the other hand, there was some confusion with the 26% of respondents who believed that SEQUAL recommends individual reverse mortgage providers. Although SEQUAL is a representative body for 95% of reverse mortgage lenders in Australia, it does not recommend a specific provider nor advance the interests of a particular provider. Instead, the primary goal of SEQUAL is to promote the concept of reverse mortgages and ensure that ethical standards are met within the industry.

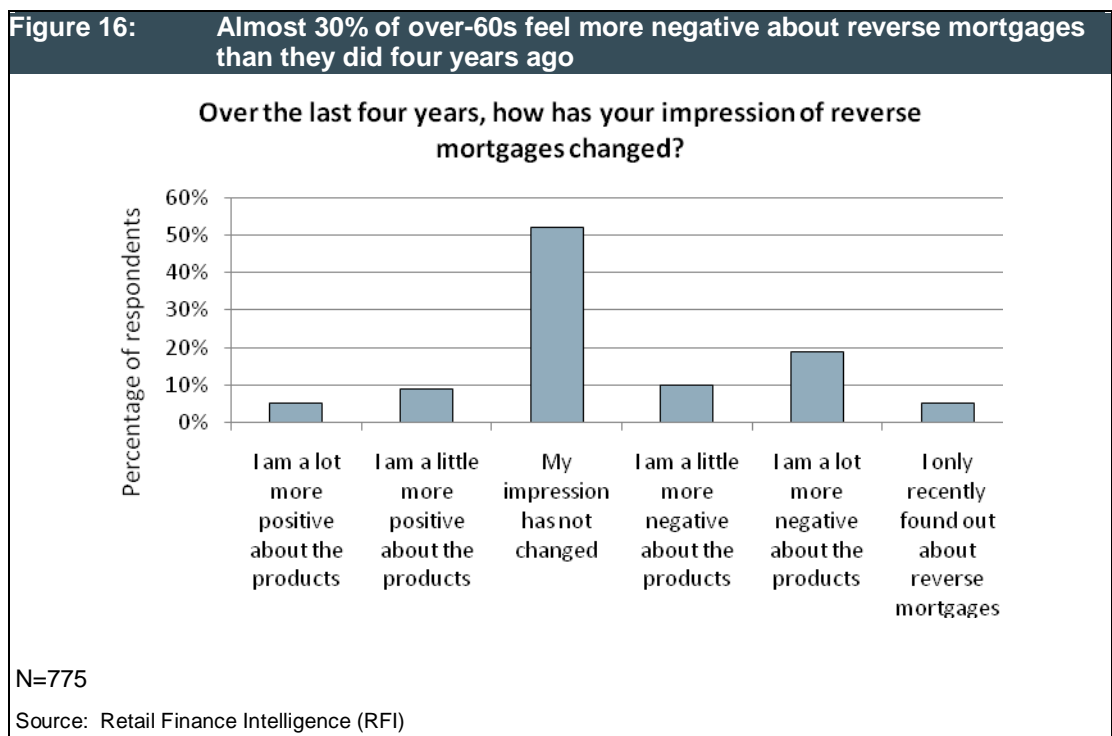


14% of reverse mortgage-aware respondents stated that they have become more positive about the product over the last 4 years

So far this section has shown that there needs to be wider education of reverse mortgages for consumers and that it is, in some ways, detrimental to have 78% of over-60s aware of reverse mortgages but only 40% that actually understand the basic premise of the product. This mismatch means that education is key to ensure that individuals understand how a reverse mortgage works based on its features rather than their general impression of such a product.

Over the last few years, reverse mortgages have received some negative coverage in the mainstream Australian press. Examples have been made of borrowers who were not aware of the long term effects of compound interest and the possibility of house price depreciation. Like any other financial product, a reverse mortgage is not necessarily a product that is suitable for all seniors and this point needs to be emphasised, particularly for those considering taking out such a product.

With this in mind, it becomes important to examine how consumers perceive reverse mortgage products and whether their impressions have changed in recent years. The SEQUAL-RFI Study reveals that many over-60s have become more negative about reverse mortgages in the past four years, with 10% of respondents stating that they had become a little more negative and a further 19% stating they had become a lot more negative about such products.



However, not every respondent's opinion has been negatively impacted and 52% of respondents stated that their impression of reverse mortgages had not changed. A further 14% stated that their opinions had become more positive towards reverse mortgages.

Perceptions of reverse mortgages have been largely influenced by media coverage

In Australia reverse mortgages have attracted some negative media coverage and criticism from consumer associations because of experiences overseas. For example, in the early days of reverse mortgages in the UK and US, high interest rates and falling house prices resulted in some older borrowers with negative equity in their homes. In response to this, most Australian lenders, and all SEQUAL Members, now offer a 'no negative equity guarantee' as a major feature of their reverse mortgage products. The fact is that the development of reverse mortgage products in the Australian market has actually benefitted from overseas experience and the products themselves address the issues that were inherent overseas.

In assessing the perceptions of over-60s it seems that media coverage has influenced their opinions of reverse mortgages with 22% of respondents stating that their opinions had been impacted "very negatively" and a further 15% said "somewhat negatively".

For some, their opinions of reverse mortgages have remained neutral or mixed and 43% of respondents stated that this was the case. The remaining 20% of respondents stated that media coverage has influenced their opinions of reverse mortgages in a positive way.

These results suggest that reverse mortgages have some way to go in building consumer confidence and are backed up by the fact that while 41% of respondents agreed that reverse mortgages allow retirees to afford a better lifestyle, only 21% believed that reverse mortgages are safe products.

Certainly, greater awareness and wider consumer education can address these problems. The complexities of reverse mortgages mean that many consumers who are less financially sophisticated may have difficulty in understanding the pros and cons of such products. In some ways, these individuals are greatly disadvantaged because there is inadequate protection for them which makes them vulnerable to unprofessional advice. As a report by the Australian Securities and Investments Commission (ASIC) cautions, the largest single risk for an equity release product is misuse and unqualified advice, stemming from a largely unregulated brokerage industry in Australia.⁴

⁴ 'Equity Release Products', Report 59. Australian Securities & Investments Commission, November 2005.

Very few over-60s are likely to take out a reverse mortgage which could be a result of a lack of understanding

Although the majority of over-60s are aware of reverse mortgages, only a small proportion of these individuals actually understand the basic features of such products. This general lack of understanding means that some individuals may have misconceptions about reverse mortgages and hence may be unwilling to explore such an option.

And indeed it seems that the large majority of over-60s are reluctant to take out a reverse mortgage on their property during retirement. In total, 73% of reverse mortgage-aware respondents stated that it was not at all likely that they would take out a reverse mortgage and a further 11% stated that it was somewhat unlikely that they would do so. Only 6% of respondents stated that they would be likely to take out a reverse mortgage in retirement.

These results clearly highlight a general reluctance among over-60s to consider a reverse mortgage. There are several reasons why this may be so, which include:

- Fear of losing pension benefits because of the pension assets test
- Desire to pass on the family home to children
- General lack of understanding or misconception

Whatever the reason, it is important that potential borrowers seek advice before taking out a loan. Signing up for a reverse mortgage represents a contractual agreement between borrower and lender. For this reason, SEQUAL and other industry and governmental bodies (such as ASIC) strongly recommend that all potential borrowers should obtain independent legal and financial advice before taking out a reverse mortgage, and in fact it is compulsory to obtain independent legal advice for all loans placed with SEQUAL Members. While independent solicitors can help read the terms and conditions of the contract and other 'fine print', financial advisors can help with tax queries and other issues pertinent to individual needs.

Indeed, many over-60s recognise the importance of obtaining professional and independent advice before taking out a reverse mortgage. When asked which types of advice should be compulsory when obtaining a reverse mortgage, the majority of respondents stated legal advice (70%) and financial planning advice (66%). Another 48% of respondents stated that potential borrowers should seek other professional tax and accounting advice.

Some respondents also mentioned that all potential borrowers seek advice from either Centrelink or other agencies that dispense independent information. These results show that the majority of over-60s recognise the importance of independent and impartial advice,

which may partly explain why only 16% of respondents believed that mortgage broker advice should be compulsory before obtaining a reverse mortgage.

The mortgage brokerage industry in Australia is largely unregulated, although measures have been undertaken at a state level to ensure a certain standard of quality that brokerage advice must meet. Industry bodies are also working to address this issue by introducing standards of conduct for lenders and brokers. For example, SEQUAL has established educational standards which must be met by its accredited mortgage brokers, financial planners and other advisors. Similarly, industry bodies for intermediaries, the Mortgage and Finance Association of Australia (MFAA) and CPA Australia have recently issued information to their members detailing ways of improving their advice to borrowers.

Mortgage brokers can provide invaluable ‘across-the-board’ advice, and so further industry education and tighter regulation will see to it that these individuals are well placed to assist consumers with appropriate advice and recommendations.



Chapter 5: Experiences of reverse mortgages

At present there is a lack of research into the attitudes and experiences of older Australians who have taken out a reverse mortgage. This is largely due to the fact that the equity release market is still relatively new in Australia and that only a very small proportion of over 60 year-olds currently have a reverse mortgage product. ASIC's most recent report on consumer experiences of reverse mortgages - 'All we have is this house' - captures the experiences of 29 borrowers with a reverse mortgage and reveals that most were satisfied with the product.

This section builds a brief sketch of the experiences of the 14 respondents to the SEQUAL-RFI survey who had released equity in their home through a reverse mortgage. It also highlights that whilst borrowers were generally satisfied with their reverse mortgages, there needs to be better consumer education about these products.

Less than 2% of over-60 year olds have a reverse mortgage

A recent SEQUAL Trowbridge Deloitte Research Report has found that the Australian reverse mortgage market at 30 June 2007 consisted of more than 31,500 reverse mortgage loans and that the average loan size was \$57,356. Based on a population of 3.8 million over-60s in Australia and taking into account that many would be married or in de-facto relationship, approximately 1.5% of these people would have a reverse mortgage.

This estimate is fairly consistent with findings from the SEQUAL-RFI Study, which reveals that 14 out of 1,000 respondents had a reverse mortgage, translating to 1.4% of Australians over the age of 60. The majority of these borrowers were in the lower income bracket with less than \$40,000 in annual household income, supporting one view that is expressed by the industry which is that many older people consider the option of a reverse mortgage when they cannot afford things such as home repairs and daily essentials.

Many borrowers would recommend reverse mortgages to friends

In deciding whether and when to take out a reverse mortgage, retirees need to take into account a range of issues such as how long they may live and whether aged care is a viable option. These factors need to be carefully considered because it is important for individuals with a reverse mortgage to ensure that they will not find themselves having exhausted all of their funds in later life, and that if they wish to leave an inheritance there is equity to be passed on to beneficiaries. This desire was demonstrated earlier in this report, when it was shown that a large number of over-60s believe that some part of the family home should be passed on to children.

The 14 respondents with a reverse mortgage were generally very positive about the product. Many of these individuals took out their reverse mortgage when they were in their 70s, and this certainly fits in with the common observation that many people continue to live in their current home with current assets and income for a period of time to preserve equity for as long as possible.

In terms of their reasons for obtaining a reverse mortgage, many respondents wanted to use the additional funds to support them during retirement. For other respondents a reverse mortgage meant that they were able to buy a new car or to renovate their home – either as a form of improvement or most likely to increase their mobility around their home.

And many respondents were very satisfied with their reverse mortgage. When asked how the reverse mortgage changed their life, almost half of the respondents stated that the product improved their lives significantly despite initial concerns about rising interest rates and not being able to access equity in later life. It also seemed that the respondents' family and friends were supportive of their decision to take out a reverse mortgage, with almost three quarters of respondents stating that their close ones had a positive attitude towards them obtaining the loan.

This general positive feeling towards reverse mortgages by borrowers indicates the product can improve lives as opposed to just enabling individuals to purchase essential or luxury items. Another encouraging aspect was that when asked if they would recommend a reverse mortgage to their friends, the large majority of respondents said yes.

But there needs to be better consumer education about such products

This positive consumer feedback is particularly significant since reverse mortgages have been commonly perceived in a negative light by the Australian mainstream media. Admittedly not everyone may benefit from such a product and the less financially sophisticated consumers may find it difficult to understand the complex issues involved in making decisions about these products.

Clearly the growth of this sector will largely depend on establishing and maintaining consumer confidence, which in turn means ensuring that negative consumer experiences are avoided. The role of building this consumer confidence and ensuring appropriate consumer education not only falls on those within the mortgage industry but also the government, independent bodies and other regulators. Calls for tighter regulation of the brokerage industry may also boost consumer confidence and ensure a certain standard of quality that brokerage advice must meet.

Chapter 6: Features of reverse mortgages

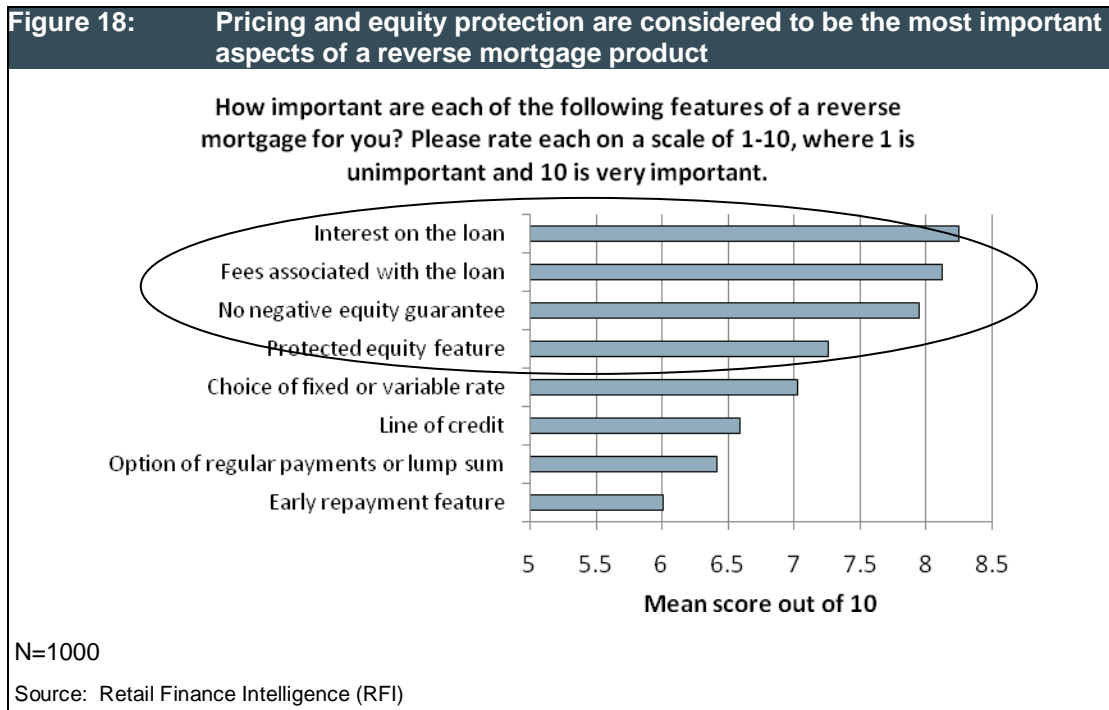
In addition to the complex issues surrounding reverse mortgage products, it is also important for consumers to fully understand the features of the products for themselves. This section identifies a range of product features and outlines consumer preferences.

Pricing and equity protection are the most important features of a reverse mortgage

One of the most important questions for consumers is to consider how much they would pay in arranging for a reverse mortgage. As with any financial product, pricing is a key differentiator and this is even more so the case for a product that is specifically designed to offer older individuals an additional source of funding during retirement.

When asked to rate the importance of each reverse mortgage product feature out of 10, more than half of the respondents stated that price-related features such as the interest rate on the loan and associated fees were very important (scoring 10 out of 10). In fact, the interest rate and associated fees were considered to be the two most important product features, scoring means of 8.24 and 8.12 out of 10 respectively.

The interest rate on a reverse mortgage is typically 1% higher than a standard variable home loan rate. At present new borrowers can expect an interest rate on their reverse mortgage to be between 8.50% and 9.35%, but their rate will change under a variable rate loan. New borrowers need to also consider the fees attached to the loan such as set-up fees, ongoing/annual fees, early termination or deferred establishment fees and discharge fees. These types of associated fees vary and may not be applicable to all reverse mortgage products currently in the Australian market.



Other important features for respondents were related to the protection of the property’s equity. In total, 54% of respondents stated that a ‘no negative equity guarantee’ feature is very important while a further 44% stated the same for a protected equity feature. A protected equity feature ensures that there will be a guaranteed percentage of the property’s value to pass on to beneficiaries when the loan and any accrued interest/fees are repaid.

SEQUAL strongly recommends that potential borrowers should take out a reverse mortgage with a ‘no negative equity guarantee’ feature, which ensures that borrowers never owe more than the value of the property. The effects of compound interest, longer-than-expected loan term and house price depreciation could all mean that the final repayment amount exceeds that of the equity of the house. As a result, this ‘no negative equity guarantee’ feature is a key requirement by SEQUAL of its members that ensures borrowers are adequately protected from unexpected variables during their loan term.

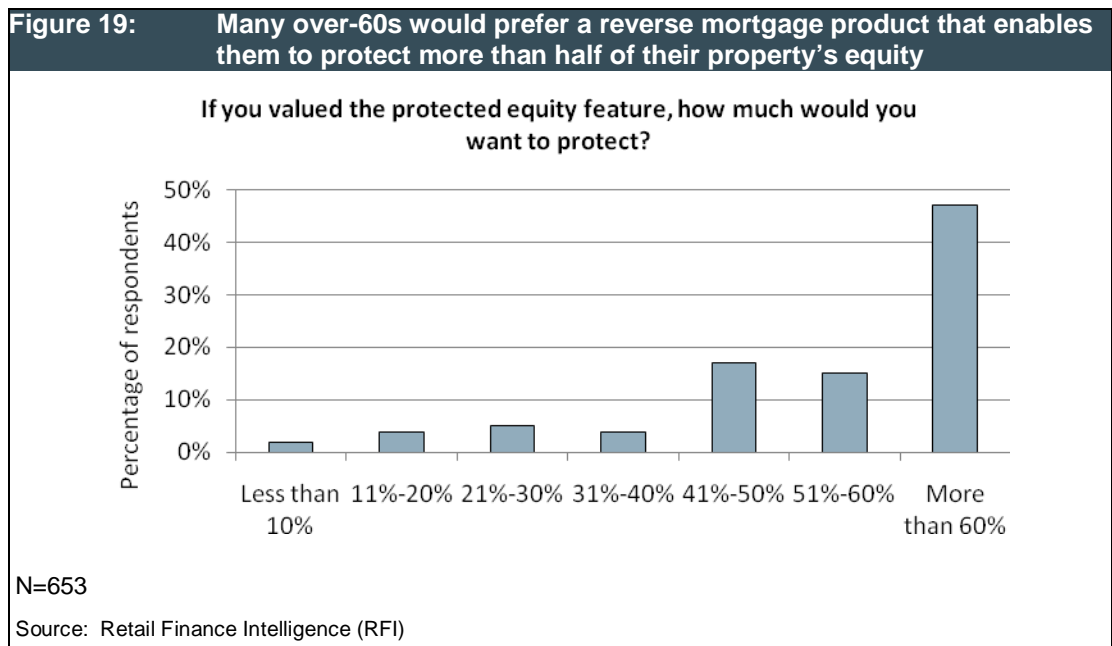
The majority of over-60s would want to protect more than half of their property’s equity

Currently there are reverse mortgage products in the Australian market that offer borrowers the option of protecting a percentage of their property’s equity so that a certain amount can be passed on to children and other beneficiaries. This equity protection feature is usually optional and lower loan-to-value ratios (LVRs) may apply. While most lenders enable

borrowers to protect 10%-25% of the net sale proceeds from the future sale of their home, one lender offers the option of protecting up to 50% of the property's equity.

And it certainly seems that many over-60s would want to protect as much equity from their home as possible. In fact, 62% of respondents stated that they would want to protect more than half of their property value – 47% of respondents stated that they would want to protect more than 60%.

These results certainly indicate that many over-60s believe that they should pass on a significant percentage of their assets to their beneficiaries. With such a large portion of over-60s preferring to protect more than half of their property's equity, it seems that there is a space in the market for a product that is more tailored to meet these specific consumer needs.



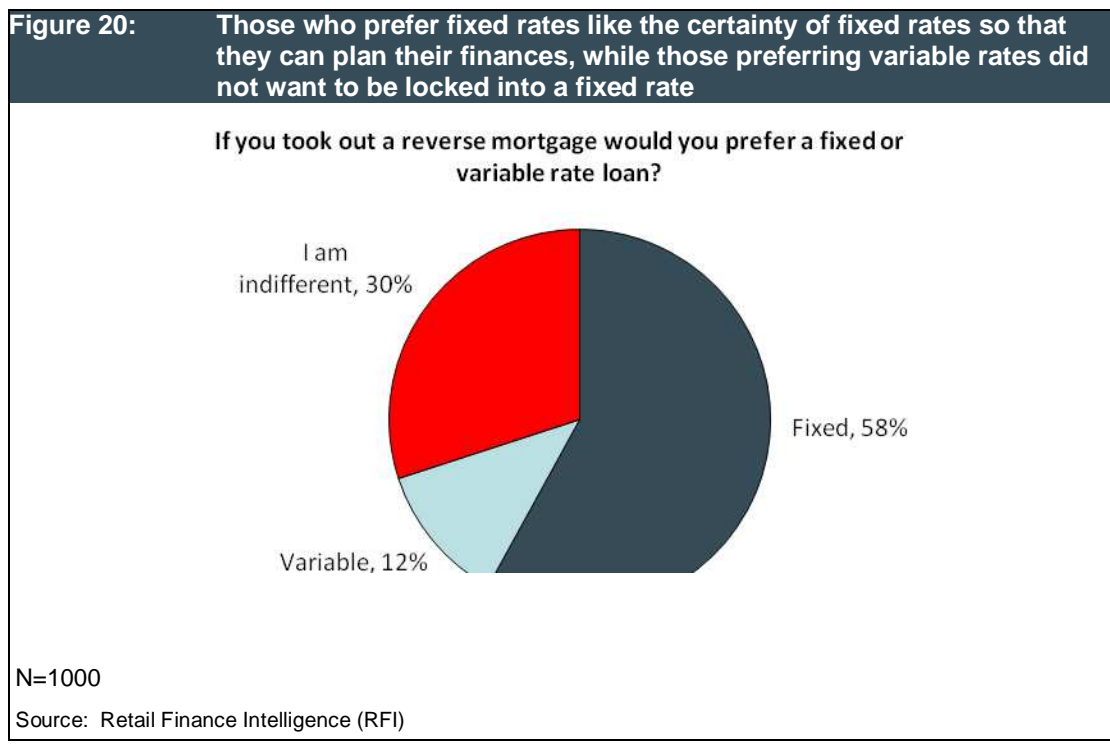
Fixed rates are considered more preferable than variable rate loans

Like a traditional mortgage, borrowers taking out a reverse mortgage can choose between a fixed and variable rate loan. There are four different interest types for reverse mortgage products currently in the Australian market – fixed for a certain period (e.g. 5 years), fixed for the life of the loan, variable, and variable capped. Although variable loans are more common, many lenders offer their borrowers the choice between a fixed and variable loan.

When asked whether a fixed or variable rate loan was more preferable, 30% of respondents stated that they were indifferent. Of the remaining respondents, 58% stated their preference for fixed rates while 12% favoured variable rate loans.

It seems that many individuals prefer fixed rates because they like the associated certainty. Almost two thirds of respondents who preferred fixed rates stated that they like to know exactly how much interest is applied to the loan balance. Another 52% of respondents believed that interest rates will go up which would affect variable rates. This is understandable given the fact that the Reserve Bank of Australia (RBA) has lifted the Cash Rate Target ten times since May 2002 and twice in 2007.

More than one third of the respondents that preferred variable rates did so because they believe that interest rates will actually go down. Wider economic considerations aside, the majority of respondents who preferred variable rates – 69% – simply did not like to be locked into a fixed rate loan.



Good pricing is more preferable than a product with a large range of features

At present, there are a range of reverse mortgage products in the Australia market that have various flexible features. While most lenders offer their borrowers the choice between lump sum and regular instalments, some lenders also offer equity protection, early/partial repayment options and flexible drawdown options. More sophisticated products have a 'portable' option, which means that the loan can be moved across to a new property if the owner moves.

Although many reverse mortgage products in the market offer the borrower a considerable degree of flexibility, it appears that the majority of over-60s value good pricing over a product with a large range of features. When asked to consider whether lower interest rates and fees are more preferable than a large range of product features, 75% of over-60s stated that they would prefer a product with lower fees and interest rates.

Good pricing is an especially important factor for those in the lower income brackets. While 80% of respondents with less than \$20,000 in annual income preferred lower interest rates and fees, this proportion decreased to 75% for those with \$20,001-\$40,000 and 72% for those with over \$100,000.

Those who would use a reverse mortgage are likely to do so to fund their retirement

There are many reasons why an individual will consider releasing equity in their home through a reverse mortgage. One common view of those outside the industry is that few older people would consider the option of taking out a reverse mortgage except as a choice of 'last resort' for essential living expenses during retirement.

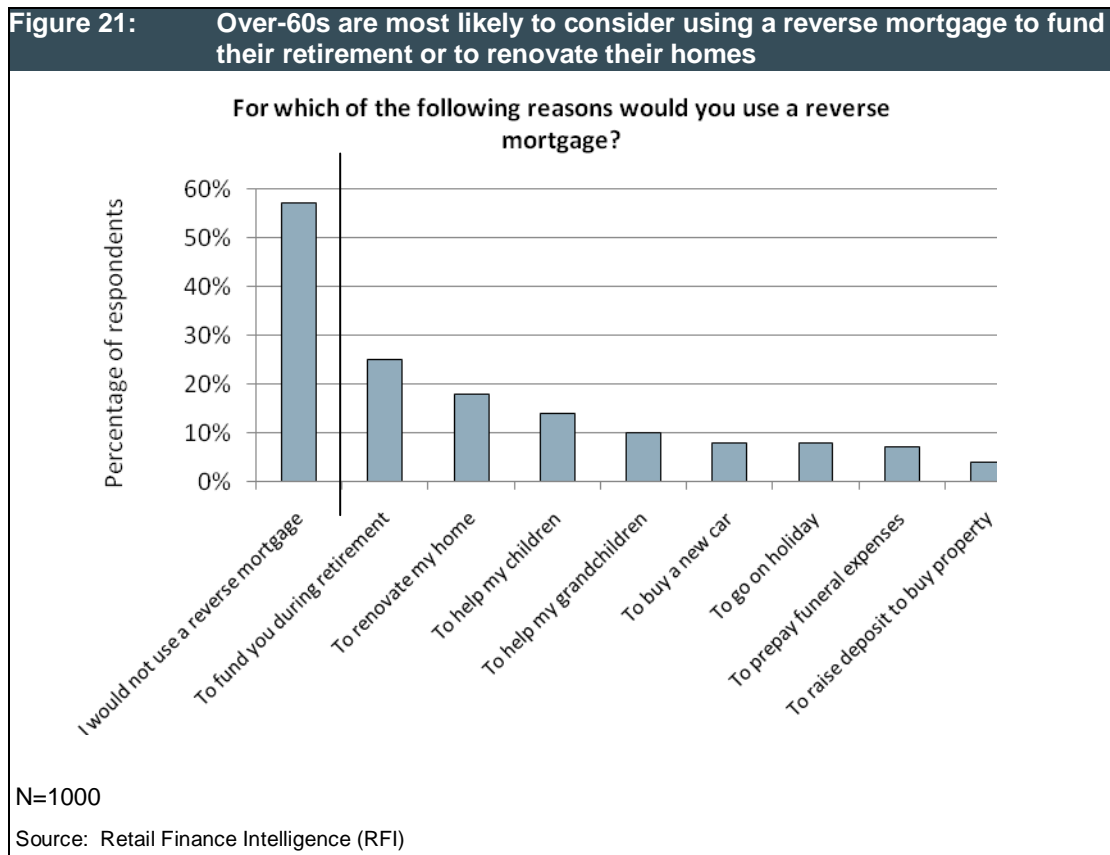
However, when asked for what reasons they would take out a reverse mortgage, over 40% stated that would consider the product, with 25% of respondents stating that they would use the borrowed amount to fund their retirement. Younger consumers were more likely to use a reverse mortgage for this purpose. In total, 35% of 60-64 year-olds cited this reason compared to 20% of 70-74 year-olds and 16% of over-75s.

This finding may reflect the view that early Baby Boomers are more comfortable with the idea of releasing equity in their home to fund them during retirement compared to the more traditional Builder generation. Indeed, the Department of Family and Community Services has reported that "there still seems to be an attitude with the current generation [Builders] in particular, that they have saved all their lives for a house and finally paid it off and they are reluctant to remortgage it or re-encumber it."⁵

Retirement funding was not the only reason to consider a reverse mortgage. In total, 18% of over-60s stated that they would use a reverse mortgage to fund renovations for their home. In many cases older individuals with declining health may prefer to modify their homes for mobility rather than move into aged care.

⁵ House of Representatives Standing Committee on Health and Ageing, 'Future Ageing'. Report on a draft report of the 40th Parliament: Inquiry into longer-term strategies to address the ageing of the Australian population over the next 40 years. Canberra, March 2005.

It is significant that 57% of over-60s stated that they would not consider using a reverse mortgage, and this backs up the assertion that the product is not for everyone. As mentioned earlier, this may be due to a desire to pass the entire family property to children, a fear of reduction in governmental benefits or common misconceptions about the product itself. Whatever the reason may be, this statistic suggests that reverse mortgages have a place in the mortgage market in Australia, but will not be embraced by all.



Interestingly, results show that respondents in the lower income brackets were more likely to state that they would not use a reverse mortgage. In total, 58% of respondents with less than \$20,000 in annual household income stated that they would not use a reverse mortgage, and this proportion dropped to 44% for those with \$80,001-\$100,000 and 41% for those with over \$100,000 in annual income.

This finding further dispels the view that reverse mortgages are a product of ‘last resort’ for lower income earners looking for additional funds for their retirement – instead, it appears that many middle to high income earners find the option of being able to release equity through a reverse mortgage attractive.



These results suggest that the growth in equity release is being driven by middle-income consumers. In some ways these consumers are the biggest beneficiaries of the property boom and, with increasing popularity of equity release products such as reverse mortgages, now find themselves with the opportunity to access greater equity wealth than previous generations.