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Housing Wealth and Housing Decisions in Old Age: Sale and Reversion

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Abstract

Population ageing brings new challenges to long-term household economic decisions. In the event of old-age dependency, housing assets become a key self-insurance device. However, little empirical evidence has been reported regarding an individual's expectations of having to use their housing wealth for such a purpose. This paper draws upon two complementary data sources to empirically examine: (1) the influence

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Notes

- ¹ It appears that the elderly are more likely to have paid off their home mortgages when they own a property and, thus, can avoid the stressful effects of mortgage payments.
- ² Ownership itself has been found to have positive effects on individual satisfaction, through greater self-esteem and improved health (Rohe et al., <u>2001</u>), which in turn leads to very positive social consequences (e.g. lower crime).
- ³ Indeed, the financial market has developed a range of instruments such as reverse mortgages, housing leasing and housing credits to make it easier to draw on housing wealth or to convert it into a more liquid form.
- ⁴ See http://www2.vrom.nl/Docs/internationaal/housingStats2002.pdf
- ⁵ On the other hand, they are less flexible mechanisms and rely on a set of contract conditions that individuals might not necessarily trust.
- ⁶ Socio-demographic characteristics of interviewed individuals (i.e. gender, age, civil status and level of education) were similar to the figures of the same population groups at the national level. See Elvira et al. (2005) for a more comprehensive description of this database.
- ⁷ Concretely, the survey question for WTS is: 'If in the future you suffer from a disability or chronic impairment that prevents you from carrying out some of the basic activities of daily living, would you be willing to sell your house/flat to access more

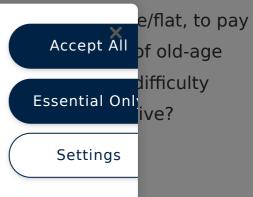
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- ⁹ Self-reported housing satisfaction (SRHS) is measured using a scale ranging from 0 (unsatisfied) to 10 (totally satisfied).
- ¹⁰ Most educated respondents expressed a higher preference for a nursing home (19.8 per cent).
- ¹¹ The survey was conducted by an independent research company in April 2006.
- ¹² For example, among others, Case & Schnare (<u>1994</u>), Chian & Tsui (<u>2005</u>), Hancock (<u>1998</u>), Kutty (<u>1998</u>, <u>1999</u>), Mayer & Simons (<u>1994</u>), Merill et al. (<u>1994</u>), Mitchell & Piggott (<u>2004</u>), Ong (<u>2008</u>), Rasmussen et al. (<u>1995</u>) and Venti & Wise (<u>1991</u>).
- ¹³ The Spanish Observatory of Old Age (IMSERSO, <u>2002</u>) estimates that, in Spain, there are 240 000 institutional beds and that approximately 3 per cent of the elderly are in institutional care, although this figure is four times higher for those aged 80 and over.
- ¹⁴ Ordered probit models were an alternative specification; however, the marginal effects for each change in the relevant coefficient were less straightforward to interpret and did not provide specific improvements to the explanatory power of the model reported here.
- ¹⁵ Again, WTC is observed by the researcher as a binary variable (1 if the individual is willing to contract a reverse mortgage, 0 otherwise). Similarly, the FAM variable is also a binary covariate (1 if the individual knows such financial conversion loans; 0 otherwise).
- ¹⁶ An interval regression model was adjusted to derive a continuous measure of net monthly benefit income, which was performed by adjusting a set of covariates (i.e. gender, age, civil status, education and size of the town). The results were approximately the same when pension income was input as a midpoint interval value.

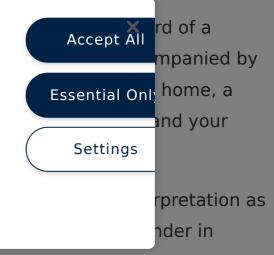
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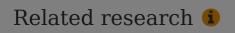
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Equation ($\underline{1}$) (- 0.128) tells us that the probability of WTS the own home is 13 per cent lower for male individuals.

¹⁹ Although not shown, the data pointed to the existence of a regional disparity in the level of familiarity with reverse mortgages with a better knowledge in the Autonomous Communities of Catalonia, Madrid, the Basque Country and the Balearic Islands.



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