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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 of housing assets on an individual's willingness-to-sell (WTS) their dwelling for care purposes, and (2) the willingness to take out a reverse mortgage contract loan in the event of old-age dependency. The paper's findings suggest that homeowners' WTS in old age is unaffected by their income or housing assets and is, rather, determined by socio-environmental housing characteristics and the individual's health and personal needs. Conversely, the study finds that the uptake of home reversion loans is largely dependent on income or education, but not on a household's housing assets.

Keywords:

Housing wealth homeownership reverse mortgage old-age dependency asset accumulation savings in old age

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., 2001), 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 suitable housing for your condition? (for example, to buy an adequate house/flat, to pay for a nursing home …)’. On the other hand, residential preferences in case of old-age dependency are measured through the question: ‘If in the future you have difficulty

walking, bathing, phoning, taking medication etc., where would you like to live? (nursing home, live at home, relative's home)'.

[8] Note that the average family size in Spain is 2.9 members.

[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 (1994), Chian & Tsui (2005), Hancock (1998), Kutty (1998, 1999), Mayer & Simons (1994), Merill et al. (1994), Mitchell & Piggott (2004), Ong (2008), Rasmussen et al. (1995) and Venti & Wise (1991).

[13] The Spanish Observatory of Old Age (IMSERSO, 2002) 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.

[17] The FAM covariate was calculated from the question: 'Have you ever heard of a reverse mortgage (jointly with an annuity) before?'. This question was accompanied by a previous short introduction of the type: 'if you are 70 years old and own a home, a

financial institution pays you a monthly amount of money until your death and your heirs can recover the property if they repay the amount just borrowed'.

[18] Note that Marginal Effects coefficients in Table 2 have a quantitative interpretation as they are measured in units of probability. For example the coefficient on gender in Equation (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.