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The Potential Role of Housing Equity in a Looming Baby Boomer Retirement Cash-flow Crisis: An Australian Perspective

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Abstract

With Australia's 5.5 million "baby boomer" generation and tens of millions of others around the world now transitioning into retirement, government and community resources for the developed world's rapidly ageing populations are increasingly stretched. A key emerging problem is that some retirees do not have sufficient asset liquidity to finance post-retirement consumption needs. This is seemingly despite households holding substantial assets in the form of housing equity in many countries. The family home has the potential to change from a direct investor private financial asset to a more flexible, securitized, financial instrument. The purpose of this paper was to examine the role of housing equity in supporting retirement consumption and income needs and easing financial stress in later retirement. The paper also examines the potential for new financial instruments tailored for retirees seeking to decumulate

housing equity at low cost. Incorporating panel data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, we illustrate the role of housing in Australian household portfolio composition in particular and the experience of homeownership for different Australian households, with the primary objective being to identify issues that affect home equity decumulation.

Key words:

Homeownership | Household finance | Retirement, Financial stress, Housing equity

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