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Integrating Residential Property with Private Pensions in the EU
Annex to final report 2017

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"Integrating Residential Property with Private Pensions in the EU"

FINAL REPORT

ANNEX

institut für finanzdienstleistungen e.V.

in cooperation with

Rostock University (UROS), Andrássy University (AUB), Waterford Institute of Technology (WIT), Technical University of Delft (TUD), The Libera Università Maria Ss. Assunta (LUMSA) and Queens University Belfast (QUB)

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This Annex should be read in conjunction with the final report. Both are available at this address: www.equity-release.eu.

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1 Stakeholder engagement - Summary of selected meetings and events

1.1 Summary of the stakeholder information and education round table event, Rome, Italy (January 2017)

1.1.1 English short summary

On the 30th of January 2017, Lumsa University hosted a panel discussion on the reasons, the necessity and the procedures to carry forward the case of ERS. The panel took into account all the stakeholders involved in ERS matter: the consumers, the providers (both in the financial and insurance sectors), the legislator, the Italian central bank representatives, the media and the academia. After a first introduction, made by Prof. Murro, about the goal and the scope of the European ERC project that focuses on ERS and of which Lumsa University is a research partner, the discussion was led by Dott. Franco Locatelli, the director of the financial news-web Firstonline.info.

Dott. Franco Locatelli highlighted the necessity and the timing of the interventions. However, he wanted to steer the conversation to tackle three main questions. First, he asked about the state of the art of the Italian legislation and its effect one hand on the market structure and development of such financial tools, and on the other hand on the consumers' perceptions and impression about those instrument. Second, Dott. Locatelli asked the panelists to show what are the limitations and the strengths of both the demand and supply side of the market and if there were already in place some interventions. Finally, the third point relates the dissemination and communication strategies of the ERS, implemented by the supply side, and the financial literacy of the beneficiaries of the ERS.

All the stakeholders took the stage offering an insightful analysis not only of the conditions characterizing the Italian society that justify the use of ERS initiative, but also the fact that the same conditions could also delay a solid uptake of the ERS scheme if not considered properly.

The legislator's representative On. Marco Causi told the virtuous story of the path that led to the law proposition endorsing the mortgage lending scheme, known as the "Prestico Ipotecario Vitalizio".

The speech highlighted two main points regarding the analysis of the uptake of the ERS scheme. The first point regards the importance of understanding the evolutions of elderly's needs given the longevity path that our society is undertaking. Related to this is the ability to make elderly knowledgeable of all the possibilities available to them, either financial, social and economic ones. On. Causi also pointed out two challenges that Italian system needed to face: inefficient model of elderly assistance, lag in tax-reforms related to the inheritance and in legislative reform on urban management, and last but not least a high variability in the housing market price (e.i. cities VS small village).

The voice of consumers was represented by Dott.ssa Mara Colla who pushed the conversation towards the pitfalls of the demand side. Endorsing the socio-economic analysis of the previous intervention, she pointed out that knowledge, transparency and awareness that the new financial tool aim to better elderly's life is crucial and hence, financial literacy, education and counseling can work as strategic factor in the development of an ERS market. On the same token Dott. Dario Focarelli, who is the General Director of the National Association of the Insurance Company, express himself. Financial education is fundamental when it comes to consider pension and saving plan-decision making. In fact, confusion could arise when the scope of the ERS tool is mistakenly considered as an alternative to other pension scheme, or when it is taken as another way to repay previous debts. It is instead a complementary pension tool, and to understand this scope people need to be money-responsible and financial aware and knowledgeable.

If on the necessity of financial literacy almost every panelist expressed their strong opinions, less emphasis was put on "how" to think financial literacy program and more on how to spread information about either the ERS tool and its providers in the Italian scene.

Among the banking system providers, Intesa San Paolo was represented by Marco Iacovissi, who presented the information session about their products: costs, prices, procedures and risk involved.

After the informative session on the financial instrument, the conversation continued with a representative of the Bank of Italy, Dott. Giovanni Guazzarrotti, who exposed further explanations related to the development of both the demand and the supply side of the ERS market. Among the others factors, there are 3 main points. Firstly, he pointed out that the consumers' decision making, when it comes to saving and long-term planning, is peculiar and explained by behavioral inefficiency. Secondly, the extension and the uptake of the ERS market depends also on the degree of development of the whole financial market of the country under analysis. And thirdly, the suppliers face a measurement problem, that is how to measure the aggregate longevity risk, how to edge the bank from it and how, in turn, to solve informational asymmetry both related to the prices and to the costs of such financial instrument.

The panel carried on and summarized the discussion with the appointee of the Italian Banker Association (ABI), Dott. Raimondo Lucariello and with Prof.Aurelio Valente an Expert of ERS tool, who present few more data on the development of the Italian Market regarding the ERS market and the uptake of the financial tool, emphasizing, once and for all, the importance of financial education and institutional communication and knowledge of the tools.

1.1.2 Italian version – Full transcript

Tavola rotonda

COME TRASFORMARE LA RESIDENZA DI PROPRIETA´ IN UNA FORMA PENSIONISTICA INTEGRATIVA

Università LUMSA, Lunedì, 30 Gennaio 2017

Dott. Franco Locatelli - Direttore di FIRSTonline.info: Intanto buon pomeriggio a tutti, sono *Franco Locatelli*, sono il direttore di **FIRSTonline** che è un sito indipendente di economia e finanza, e ringrazio la *LUMSA* per avermi chiamato a moderare questa tavola rotonda che si colloca all'interno di un convegno che, come abbiamo già sentito, dalle prime battute, è al tempo stesso molto interessante, originale, ma anche molto complesso e difficile. La tavola rotonda sarà animata da otto panelist, che vi vengo a presentare, in rigoroso ordine alfabetico - qualche volta l'ordine alfabetico è un residuo burocratico, in altri casi invece è molto felice come il nostro che consente una alternanza di voci di diversa provenienza -, abbiamo l'*Onorevole Marco Causi del Partito Democratico*, che è professore di Economia Politica nell'*Università Roma Tre*, e soprattutto è presente essendo stato il primo firmatario delle legge che ha portato all'istituzione del Prestito Ipotecario Vitalizio, una legge virtuosa per certi versi un caso di scuola perché è stato il risultato di un una convergenza preventiva tra le banche e i movimenti dei consumatori. In secondo luogo, ma non per importanza, la *dott.ssa Mara Colla* del Confconsumatori*;* poi abbiamo il *dott. Dario Focarelli* che è il Direttore Generale dell'Ania, che è l'Associazione delle Assicurazione. Il d*ott. Maurizio Iacovissi*, che è un dirigente dell' area Roma nord di Banca Intesa San Paolo; il *dott. Carlo Chiarulli*, che rappresenta un'altra organizzazione dei consumatori Adicounsum; poi abbiamo il dott. *Giovanni Guazzarotti*, del Servizio Stabilità Finanziaria del dipartimento Economia e Statistica della Banca d'Italia; infine il dott. *Raimondo Lucariello* dell'Abi, dell'Associazione Bancaria Italiana e il *prof. Aurelio Valente* che è un promotore ed esperto del Prestito Ipotecario Vitalizio che ha accompagnato la nascita della legge di cui parliamo. Questa legge è stata approvata molto velocemente nel 2015 e da qualche mese è applicabile grazie ai regolamenti attuativi che ne consentono la piena operatività.

Il tema della tavola rotonda, del convegno stesso, è come trasformare la residenza di proprietà in una forma pensionistica integrativa. Questo tema è molto interessante perché certamente incrocia due temi di fortissima attualità e di grande popolarità: la casa da una parte, le pensioni dall'altra. La questione in analisi è molto complessa perché bisogna ammettere che per ora sono pochi che sanno di questa legge e sono pochi quelli che hanno idea di cosa sia un Prestito Ipotecario Vitalizio. Se facessimo un sondaggio di massa credo che i risultati allo stato attuale siano molto problematici. Al tempo stesso è un convegno complesso e difficile perché non c'è dubbio alcuno che il Prestito Ipotecario Vitalizio incrocia temi e problemi epocali, che vanno dalla crisi demografica, all'invecchiamento della società, all'allungamento dell'età media, alle dinamiche del mercato immobiliare, alle dinamiche del mercato finanziario, ai problemi e alla crisi della previdenza pubblica, ai conflitti intergenerazionali - perché quando si tratta di fare una scelta del genere se una famiglia ha dei figli deve interrogarsi anche sull'opportunità di scelte che fanno capo al prestito ipotecario - ma anche direi anche un problema su cui forse si riflette poco, perché siamo nella fase iniziale e su cui forse non ci sono nemmeno molti studi, che è quello che potremmo definire del de-cumulo dei patrimoni degli anziani: cioè le pensioni sono sempre più basse, si allontano dalle retribuzioni, ma soprattutto devono fronteggiare un problema inedito, che non c'era dieci o vent'anni fa. Dieci o vent'anni fa, magari, erano i figli che aiutavano i genitori anziani, oggi, spesso è l'esatto opposto. Ma questo porta anche ad una progressiva erosione del patrimonio delle persone anziane, e questo è un problema, nel senso che può avere aspetti positivi, il patrimonio si mette in moto, però se sono scelte forzate evidentemente ha degli aspetti negativi, molto negativi. Quindi i problemi sono molto complessi e questa tematica è estremamente affascinante tanto quanto difficile da inquadrare. Ovviamente non può essere una legge, per di più giovane, a risolvere questi problemi, però quando si affrontano queste tematiche io credo che sia utile tenere presente la complessità dei problemi e capire anche come uno strumento in se definito e, allo stato nascente, perché questa è la realtà del mercato attuale in Italia, deve sapersi misurare con queste tematiche che come dicevo prima sono molto complesse. Quindi ben vengano occasioni come queste.

Ma non la voglio fare lunga e appunto, siccome gestire una tavola rotonda con otto *panelists* non è sempre facilissimo, mi affido quindi alla sensibilità di tutti i partecipanti chiedendo loro concretezza, chiarezza ma anche grande capacità di sintesi, cioè immaginando di avere al massimo due ore a disposizione, possiamo prevedere che ognuno parli per non più di dieci minuti e che purtroppo il compito del moderatore è antipatico, ovvero quello di ricordare il tempo. Direi, per organizzare il lavoro ed evitare interventi dispersivi, che ogni *panelist* potrebbe intervenire principalmente su tre problemi che mi sembrano quelli più rilevanti. In primo luogo, fornire qualche elemento sullo stato dell'arte e sull'applicazione di questa legge. Non chiederò dati, poiché credo che non esistano se non allo stato embrionale, dato che la legge è diventata operativa da pochi mesi e il mercato è allo stato nascente, né credo che si possa pensare di fare un censimento in grado di fotografare puntualmente la situazione. Però quando dico stato dell'arte penso, non solo ai dati numerici ma anche alle tendenze, alle prime impressioni, agli umori, alle percezioni dei consumatori e del mercato. Il secondo aspetto da affrontare riguarda cosa si può fare sia dal lato dell'offerta che dal lato della domanda per allargare un mercato. Un mercato che se si dovesse mai avvicinare a quello dei paesi più evoluti avrebbe delle potenzialita molto elevate: penso, ad esempio, alla Gran Bretagna dove il Prestito Ipotecario Vitalizio ha grande successo, il suo mercato è in crescita e rappresenta, grosso modo, il 10% dei mutui. Qualcuno ha calcolato, inoltre, che se i prestiti ipotecari raggiungessero il 10% dei mutui attualmente erogati in Italia, si potrebbero mobilitare circa 2 miliardi di euro nel corso degli anni. Il terzo problema che chiederei di affrontare ai panelists riguarda due aspetti fondamentali. Il primo aspetto si lega all' osservazione, molto opportuna, che faceva il *prof. Murro,* quando diceva che il progetto europeo di cui la *LUMSA* è parte, dovrà essere diffuso e fatto conoscere. Quindi io credo che una delle necessità del Prestito Ipotecario Vitalizio sia quello di essere diffuso nella società italiana, cioè bisogna farlo conoscere nelle forme più varie. Il secondo aspetto dovrebbe provare a rispondere a quest'ultima domanda: questa battaglia può rappresentare una occasione di

educazione finanziaria? Su questi temi si può organizzare, non solo la diffusione dei dati, quando ci saranno, e la conoscenza della legge (spiegando a chi si rivolge a questa legge, credo che pochi lo sappiano). Ma forse può essere anche una crescita di educazione finanziaria di cui tutti sappiamo quanto il nostro paese abbia bisogno.

Una delle virtù dei moderatori è quella di parlare poco, io credo di avere già esagerato, quindi direi che entriamo subito nel vivo, seguendo l'ordine alfabetico e chiedendo a ciascun intervento e *panelist* di non oltrepassare possibilmente i dieci minuti. L'ordine alfabetico ci dice che l'Onorevole Causi sarà il primo a prendere la parola, come dicevo all'inizio Causi è anche il primo firmatario di questa legge quindi onore e oneri del primo intervento. Colgo l'occasione per ringraziare in modo particolare l'Onorevole Causi che mi ha permesso di non fare troppe figuracce in questa occasione, perché mi ha messo in contatto con un consulente, che voglio ringraziare, il dottor Claudio Pacella, che ha un sito, *65plus*, che ieri mi ha fatto una full immersion, io in mezz'ora ho appreso almeno gli elementi fondamentali di una legge che nonostante mi occupi da quasi trent'anni di finanza, confesso che non conoscevo nel dettaglio. Quindi ringrazio attraverso di lui l'Onorevole Causi. Prego Onorevole.

On. Marco Causi - <u>Professore associato di Economia politica e proponente della Legge 44/2015 sul Prestito Ipotecario Vitalizio</u>: Vi ringrazio molto, ringrazio i colleghi della LUMSA, e l'interessante introduzione che ha fatto il professor Murro. Vorrei raccontarvi come siamo arrivati a questa legge. È un caso virtuoso, è vero, ma la virtuosità in questo caso risiede nel fatto che hanno funzionato i ponti intermedi. Si discute molto sul fatto se i ponti intermedi servono, in questo caso di ponti intermedi quali l'ABI e l'Associazione consumatori, hanno fatto il loro dovere. I ponti intermedi hanno siglato il protocollo d'intesa ed io e *Antonio Misiani* ci siamo semplicemente presi la briga di prendere questo protocollo d'intesa e trasformarlo in legge. Per fortuna c'è stata una stagione parlamentare un po' più tranquilla, il 2014-15, e questo lavoro di cacciavite ha avuto la possibilità di diventare legge. Naturalmente già mentre discutevamo questa legge in Parlamento era emersa la possibilità di estendere le previsioni legislative anche al caso della previdenza integrativa, perché invece il protocollo d'intesa trasformato in legge riguarda soltanto un prestito a medio e lungo termine. Tra l'altro una cosa da far conoscere è che mentre nella vecchia normativa, il prestito vitalizio ipotecario non poteva beneficiare dell'imposta sostitutiva favorevole di cui beneficiano i prestiti a medio e lungo termine, con questa normativa anche il PVI ha questo beneficio fiscale come quello che hanno tutti quelli a medio lungo termine. Già in quella fase ci si è posti il tema se fosse utile estendere il PVI anche al caso di previdenza integrativa. Non lo abbiamo fatto per motivi di prudenza perché, essendo quel testo di legge nato da un accordo e non essendo quel punto compreso in quell'accordo, abbiamo preferito in quella fase fare il primo passo. Ad ogni modo, io mi dichiaro subito disponibile - anche se temo che lo spezzone di legislatura che abbiamo di fronte non ci permetterà di chiudere a breve termine, ma nel caso possiamo depositare una piccola proposta di legge, lasciandole per le successive legislature - aprire anche la discussione della previdenza integrativa. Su questa questione, dico il mio parere nell'impegno personale per la parte politica, ci sono fattori positivi sull'estensione del PVI all'uso previdenziale, alcuni fattori invece negativi e alcuni fattori d'incertezza riguardo la pratica di questo tipo. Il fattore positivo è evidente, nel senso che se il mutuatario non riceve tutto e subito, ma riceve poco a poco ogni mese, l'esposizione finanziaria è più bassa sia per la banca sia per lender sia per il borrower, e quindi i costi sono superiori perché l'esposizione del debitore si accumula nel corso del tempo lentamente: una cosa è avere cento euro al mese per dieci anni, una cosa è avere quarantamila euro tutti e subito, il calcolo degli interessi è diverso. Qual è l'aspetto non convincente? E questo lo dico anche ai meno impegnati in questo interessante progetto di ricerca, che comunque siamo nell'ambito dell'ipotesi di life cycle, nell'ipotesi in cui questo strumento finanziario esercita una funzione di smoothing fra fase di accumulazione, o fase della vita adulta, e fase di de-cumulazione, o fase della pensione. Questa ipotesi di life cycle che come sappiamo anche da una evidenza internazionale non sembra confermato, anche in paesi come Stati Uniti e UK che hanno usato molto questo strumento. E in effetti a me non convince molto. Non mi convince soprattutto alla luce del terzo elemento che secondo me va affrontato. La

letteratura internazionale ci dice che gli strumenti di reverse-mortgage (mutuo inverso), piuttosto che stare dentro all'ipotesi di life cycle, sono la risposta a diverse esigenze: l'esigenza di far fronte a spese impreviste, l'esigenza a fronte di pagamento di debiti, esigenze all'interno di scelte intergenerazionali a carattere familiare (questo lo dice Merton, non lo dice Causi). Vale a dire, se gli eredi oggi hanno bisogno di uno start up di lavoro, di comprarsi la casa, è meglio avere i soldi subito che aspettare che i genitori muoiano. Però a questo punto siamo fuori dal life cycle, non è una scelta individuale, attenzione, è una scelta familiare dentro un contesto intergenerazionale. Ora naturalmente in parlamento, i critici a questa proposta di legge hanno usato molto un argomento che io non condivido che è un argomento di tipo paternalistico: "noi non possiamo dare alle persone anziane la possibilità di spendere tutto e subito magari spendendo male i loro soldi". Da convinto liberale, io penso che se una persona anziana decide di liquidare la sua casa e girare il mondo in crociera, può essere libero di farlo, non può essere il parlamento a decidere come la persona anziana debba agire. Detto questo però sono le stesse persone anziane che non sono in questa logica di decisione, perché molto spesso ragionano in un contesto intergenerazionale. Andiamo al terzo punto su cui ho riflettuto in questi giorni in seguito all'invito degli amici della LUMSA. Noi dobbiamo cercare di capire come si stanno evolvendo effettivamente i bisogni delle persone anziane. La mia impressione è che si stanno configurando dei nuovi bisogni a fronte dei quali ci sono domande e offerte di mercato da attivare, che sono un po' più complesse del semplice reddito integrativo. Perché il principale bisogno che sta emergendo è, che a fronte di una aspettativa di vita più lunga e, dunque, di gravanti condizioni di non autosufficienza, non solo la totale ma anche la parziale, si configurano dei bisogni delle persone anziane che non sono solo quelli di avere qualche soldino di più ogni mese. Per esempio, vi dico solo un'ipotesi di sviluppo, chi si occupa di assistenza sociale, lo dice e lo sa molto bene, uno strumento fondamentale per l'anziano house rich-cash poor, è di vendere una casa grande, passare ad una piccola - quindi passare da una casa grande ad una casa piccola. Un secondo punto di sviluppo è quello del modello di assistenza sociale, e su questo noi siamo molto arretrati in Italia e lo sappiamo. Abbiamo dei modelli non efficienti, non soddisfacenti. Ad esempio, un modello efficiente di assistenza per gli anziani, che impariamo dagli altri paesi, è che si comprino appartamenti più piccoli per più individui e coppie di anziani vicini l'uno all'altro, ovvero il modello che noi chiamiamo in Italia casa famiglia. In questo tipo di modello, se nello stesso stabile ci sono sei coppie di anziani, l'infermiere, l'assistente sociale e il tecnico sanitario pronti ad andare a trovarli ogni giorno ottimizzano il loro costo di produzione. Mentre se ciascun anziano sta per sé l'assistenza fornita privatamente diventa molto costosa. Inoltre, persino i modelli di extension housing all'antica, che ancora oggi alcune regioni utilizzano, sono forse meno efficienti e producono una minore qualità della vita. Un anziano che finisce in una casa famiglia ha la residenza assistita. Ma allora voi capite, e io non sono un esperto di politica sociale, una delle possibili evoluzione di questo lavoro è come mettere insieme finanza, housing e politica di assistenza previdenziale. Di fronte al fatto di liquidare la casa grande, ma ottenerne una più piccola, dentro un modello di assistenza sociale più efficiente, meno costoso e con maggiore qualità della vita, lì c'è un prodotto più complesso da mettere in campo che non è soltanto la previdenza integrativa. Certamente c'è una parte finanziaria: nell'offerta di mercato, o nell'offerta no profit (come nela finanza etica), ci potrebbe essere un servizio misto di finanza immobiliare, sostegno al reddito e modello di politica sociale. Quindi ha ragione Locatelli, stiamo discutendo di cose complicate però di vitale importanza come prossima frontiera. E infine, poi mi riservo un secondo intervento in caso ci siano ulteriori domande, ci sarebbe un altro elemento che io prenderei in considerazione, che sarebbe molto interessante introdurlo - se anche nel vostro confronto europeo, in commissione europea - perché certamente questa dimensione di scelta intergenerazionale, cioè familiare, il tax design è decisivo. Io penso, e mi piacerebbe che il vostro gruppo di lavoro producesse qualche evidenza in merito, che nei paesi in cui le eredità sono veramente tassate, dove ci sono delle vere imposte di successione (cioè nei paesi liberali – ricordate, diversamente da come si dibatte in politica, che le imposte di successione alte non sono comuniste, sono liberali perché aumentano l'uguaglianza di opportunità) esentare dall'imposta di successione questo tipo di finanze immobiliare assistenziale potrebbe

essere una buona leva. Forse potrebbe valere meno in Italia, dove al momento abbiamo una imposta di successione minima. Ma se anche in Italia si tornasse ad avere delle più alte tasse di successione, questo sarebbe un gigantesco elemento. E infine, prof. Murro, una sola critica alla sua esposizione, no critica, diciamo una valutazione: lei ha fatto vedere che la volatilità dei prezzi immobiliari in Italia è bassa; si ma la variabilità è grandissima, cioè il problema italiano non è la volatilità ma la variabilità territoriale, non soltanto nord/sud, ma anche micro-territoriale. Sappiamo che una cosa è la grande città, una cosa una piccola città; una cosa è il centro storico, una cosa è la zona metropolitana. Tra l'altro il sistema bancario, nello sperimentare questo nuovo prodotto, ha deciso di darlo solo in alcuni comuni perché appunto il sistema bancario è preoccupato di questo eccesso di variabilità. C'è anche un aspetto di distribuzione in questo, perché ai pochi dati che abbiamo il PVI è più interessante per il ceto medio che per il ceto povero, cioè è più interessante laddove c'è una casa di un certo valore che quindi ha dietro un ceto medio, quindi chi sostiene che questo strumento può essere usato a fini di contrasto alla povertà probabilmente sbaglia. Infatti io ho anche scritto che l'obiettivo di questa legge non è un contrasto alla povertà, ma un sostegno ai consumi di fasce sociali medie. Questa critica deriva dalla considerazione che per sostenere lo sforzo del sistema bancario (per stimolare o pungolare il sistema bancario a estendere l'offerta di questo prodotto) dobbiamo avere strumenti di valutazione della variabilità, e dobbiamo capire perché il PVI può essere dato, per esempio, nelle città grandi e non magari nel piccolo comune. Quando una diffusione della proprietà della casa raggiunge livelli molto più elevati nei piccoli comuni che non nei grandi, analizzare la variabilità è molto importante. Quindi vi ringrazio ancora, imparerò ascoltando chi verrà dopo di me, poi se è necessario, se volete posso fare un intervento diverso. Grazie.

Dott. Franco Locatelli: Grazie Onorevole, ma qua mi pare che quello che ha più da imparare è il moderatore. Tutti voi siete portatori di punti di vista ben definiti e vi misurate con uno strumento innovativo come quello del Prestito Ipotecario Vitalizio da tempo. L'*Onorevole Causi* ha messo sul tavolo molte domande, forse ad alcune non è nemmeno facile e possibile dare una risposta immediata. Bisogna indagare, però per esempio la soluzione unica o la soluzione a rendita mensile, oppure la possibilità che il prestito venga erogato non solo nella grandi città ma anche nei piccoli comuni, sono tutti temi di attualità su cui credo che il dibattito, soprattutto gli esponenti di organizzazioni finanziarie, avranno qualcosa da dire. Il secondo intervento è quello della dottoressa *Mara Colla*, della Confconsumatori, a cui diamo immediatamente la parola, grazie.

Dott.ssa Mara Colla - <u>Confconsumatori</u>: Certo l'intervento dell'Onorevole ha sollecitato anche il mio interesse perché ha individuato un orizzonte alla fine della riflessione che secondo me è da fare anche parlando di prestito ipotecario. Quindi nell'andare a ragionare con gli altri colleghi delle associazioni consumatori e con l'ABI in particolare ma anche con alcuni istituti di credito, il tema che lui ha toccato, come ultimo dei tanti che questo prodotto può toccare, non è stato sfiorato. Comunque non possiamo fare tutto in una volta e quindi dobbiamo fare quello che si può nel momento in cui si comincia a ragionare, meglio poco che niente. E secondo me è quello che abbiamo fatto. Abbiamo voluto affrontare con molta serietà il problema per vedere di fare di questo strumento nuovo – non nuovo ma nella nostra cultura sicuramente si – un qualcosa di utile, un qualcosa che non rispondesse all'interesse delle banche – anche se ovviamente è giusto che abbiano l'interesse anche le banche – ma l'interesse sia soprattutto per chi chiede il prestito ipotecario, e che tutto venga svolto – faremo anche il nostro monitoraggio – secondo quello che abbiamo concertato. ABI è stata seduta al tavolo con noi e ha accettato molte osservazioni, direi tutte, perché abbiamo voluto effettivamente far sì che questa domanda fosse in un qualche modo istituzionalmente guidata, tutelata, cioè che fosse una forma reale di risposta ad un bisogno che la persona, la famiglia in quel momento aveva, e non diventasse un altro strumento per chissà quali altre cose, insomma. Quindi abbiamo insieme fatto sì che anzitutto si arrivasse ad impegnarsi su conoscenza, trasparenza, consapevolezza della persona, e tutela della persona andando a considerare il più possibile tutto quello che inerisce questo prodotto nuovo. Abbiamo voluto addirittura prevedere nell'accordo con ABI anche il dopo – cioè non si può mettere in una legge tutto, perché si

rischia poi di ingessare le situazioni, non ci si muove più, tutto è escluso meno che quello che è scritto lì – quindi capite che non si poteva neanche essere troppo rigidi e volere anche noi consumatori troppo, mi viene da dire. Per cui con ABI abbiamo convenuto di introdurre direttamente nei contratti determinate garanzie. Per esempio la garanzia della co-intestazione quando chi fa una domanda di prestito non è il titolare dell'abitazione, ma un coniuge, in modo che se defunge non ci siano problemi nella continuazione di questo contratto. Il prospetto della maturazione degli interessi, che bisogna fornire già nella fase precontrattuale in modo che la persona abbia piena conoscenza di cosa matura, quando matura, l'entità e tutto quanto. Poi il periodo di riflessione a favore degli eredi. Si è convenuto che è opportuno prevedere un congruo periodo di riflessione a favore degli eredi se acquistarla la casa, non acquistarla, venderla, rimborsare la banca. Un altro punto delicato è la gestione della vendita dell'immobile. Perché se la stima dell'immobile la fa il perito bancario, uno potrebbe anche ritenere che se la banca vende la casa, riceve un valore, ma se poi diamo questa possibilità all'erede, diciamo che mettiamo in una condizione differente il titolare del diritto di decidere se rimborsare il prestito. L'ultimo punto è stato quello di imporre un tetto se la banca scopre di aver pagato di più di quello che vale l'immobile. Sembra che tutti questi punti siano stati concertati trovando, come dicevo, un accordo con l'Associazione Bancaria. Resta un fatto però: l'educazione finanziaria. L'informazione, l'educazione, l'orientamento in materia di uso del denaro e di educazione finanziaria, sono strategici; oggi qualcuno è costretto ad utilizzare PIV. A me piacerebbe pensare ad un paese in cui la persona decide, contenta di deciderlo, di usare il PIV. Avendo maturato la convinzione che, quando aveva trent'anni ha potuto usare determinati strumenti, quando ne aveva cinquanta altri, con certe altre condizioni di vita, di salute e tutto quanto, quando arriva settanta uguale e cosí via. Sogno un paese in cui ognuno di noi sa quello che può fare, realizza le sue scelte di vita quindi anche come gestire il suo denaro a seconda dei periodi della vita e quindi distingue e valorizza ed è il responsabile delle sue scelte effettivamente e non va in una banca, da un intermediario, a dirgli "guardi faccia come fossero i suoi". Perché così dice la gente al bancario, io ve lo posso assicurare, quindi questa cosa forse centra poco con il PIV, ma centra anche col PIV perché se noi arriveremo a conoscere di più tutti gli strumenti finanziari, per cui anche questo, noi avremo ottenuto un livello di conoscenza economica e di civiltà maggiore. Cosa utile per noi stessi, per le nostre famiglie, per il nostro paese, per il mercato e per l'economia. Noi dobbiamo anche assumerci delle responsabilità rispetto al fatto che la colpa di tante cose è effettivamente delle banche, di cattiva gestione, ma è anche un po' colpa nostra se noi continuiamo a non fare niente per imparare qualcosa di più di quello che ci interessa più da vicino Quindi l'invito che faccio – perché c'è presente l'Onorevole Causi, quindi un rappresentante del Parlamento – è assolutamente andare avanti trovando anche le risorse per spingere molto in direzione dell'educazione finanziaria che io definisco "imparare a usare il denaro", impariamo ad usarlo, non lo teniamo. Anche la storia del risparmiare va benissimo, nel senso di non far sprechi. Risparmiare nel senso di non fare sprechi è una buona pratica, ma il denaro non va risparmiato per essere accumulato li, va risparmiato per essere usato, a pro della propria famiglia e a pro in generale della nostra società. Quindi questi sono dati di conoscenza che non sono più procrastinabili. Quindi in questo quadro generale io farei stare anche una bella campagna d'informazione sul Prestito Ipotecario Vitalizio in modo da anche dare un avvio, favorirlo quantomeno; almeno se ne parla, si discute, si vede come migliorarlo quello che c'è da migliorare; per quello che abbiamo fatto noi lo riteniamo intanto un punto di partenza importante e utile, però si può fare sempre di più e meglio.

Dott. Franco Locatelli: Grazie. Parole sante quelle sull'educazione finanziaria, che tra l'altro mi pare stia arrivando forse al dunque in sede parlamentare, vero? E' comunque vero, insomma, che il Prestito Ipotecario Vitalizio possa sperare di avere successo, la prima condizione è che lo si conosca. Però non può essere una iniziativa volontaristica delle singole testate giornalistiche, per quel poco che può valere certamente il mio sito è a disposizione per pubblicizzare in ogni forma. Devo dire che ieri ho fatto un piccolo esperimento: abbiamo pubblicato la notizia del convegno con un titolo accattivante "Casa e pensione: come trasformare la proprietà dell'immobile in una forma pensionistica", era

domenica –un giorno un po' particolare – io comunque questa mattina ho constatato che tra le quattrocento e le cinquecento persone sono venute a leggere un messaggio del genere, eppure non c'è una grande conoscenza in giro. Quindi disponibilissimi a raccogliere tutti i contributi che servono a fare chiarezza su questo strumento. Però appunto, non ci si può affidare al volontarismo, qui servirebbe una soluzione di sistema, cioè servirebbe che i soggetti finanziari ma anche i movimenti dei consumatori, così come hanno trovato una intesa per proporre e favorire una approvazione della legge, indicassero anche come si può fare per popolarizzare questo strumento, ciascuno con le proprie forze. Adesso abbiamo l'intervento del dottore *Dario Focarelli*, Direttore generale dell'Ania, che come sapete è l'Associazione Nazionale tra le Imprese Assicuratrici che potrà in parte – anche se forse è materia più bancaria – rispondere ad alcune osservazioni che sono state fatte nei primi interventi. Prego.

Dott. Dario Focarelli - Associazione Nazionale fra le Imprese Assicuratrici, Direttore Generale: Grazie Franco, grazie a tutti gli organizzatori. È sicuramente un tema importante e significativo è tutto quello che è stato detto e da me in larga parte condiviso. Rispondendo alle tre domande del moderatore. La prima domanda è sugli umori del mercato. La prendo un po' alla larga, ma neanche tanto. Alla fine del decennio passato, un po' prima dello scoppio della crisi finanziaria, separatamente e senza dirselo una con l'altra, due grandi compagnie di assicurazione, di cui non farò mai il nome, avviarono un progetto sui "reverse mortgage" perché all'epoca negli Stati Uniti c'era una fortissima crescita dei "reverse mortgage" e la domanda era: ma qual è il risvolto assicurativo dei "reverse mortgage"? E i due grandi gruppi che si occupavano di questa cosa avevano in mente due modelli tra loro piuttosto diversi. Una diceva che la persona monetizzando il suo valore immobiliare può finanziarsi una vecchiaia serena, su due aspetti sanità e LTC (*long term care*); naturalmente dobbiamo potergli offrire una polizza vitalizia sanitaria e una polizia vitalizia LTC. La seconda è più facile, ma dieci anni fa dal punto vista attuariale le cose erano un po' più complicate. La prima, la polizza sanitaria vitalizia, è qualcosa che il mercato non offre neanche adesso. Però all'epoca, questa era l'intuizione: se tu vuoi proteggerti in realtà questo è un modo fantastico per finanziarti – se gli assicuratori fossero in grado di dartelo, perché questo tra l'altro è il punto interrogativo - da quel momento in poi hai una polizza vitalizia sia sanitaria sia LTC. Se ci pensate da un punto di vista sociale è una questione che potrebbe avere un valore non da poco. La seconda compagnia invece aveva un modello più da residenza assistita, cioè io sono forte nel sistema delle cliniche, della residenza etc… Associamo l'utilizzo del prestito che la persona riesce ad ottenere e lo colleghiamo al sistema delle residenze assistite, quindi sostanzialmente a una fase un po' diversa. Una era una sorta di scelta individuale, la seconda è una scelta in qualche modo più collettiva.

Questi erano i due modelli, tutti e due si fermarono di fronte alla domanda: gli eredi? Cioè si ritenne che prima del 2008 la protezione che in qualche modo gli istituti finanziari avevano rispetto agli eredi fosse insufficiente. Dopo che è successo? È venuta la grande crisi finanziaria degli Stati Uniti, i "reverse mortgage" crollarono, sostanzialmente sono scesi dell'80% rispetto al picco del 2008 – 2009, una fortissima riduzione. Perché ovviamente ci sono state azioni legali da parte degli eredi e ci sono state pratiche di *mis-selling*, commissioni molto alte al momento dell'erogazione, tassi più elevati rispetto a quelli che venivano fatti nei corrispondenti mutui, e quant'altro. Quindi il timore che quel tipo di mercato si potesse presentare ad uno squilibrio delle forze, si è dimostrato almeno per gli Stati Uniti molto forte. In qualche modo io credo che la nostra legge, la legge che parte dall'accordo Abi - Consumatori, e poi con il primo firmatario *Marco Causi*, attenua questi aspetti. Questo è l'aspetto positivo. C'è una cosa che non so bene se nella legge nostra c'è o non c'è, che in America ha avuto piuttosto successo che è il *counsellor* obbligatorio, cioè prima di andarne a parlare con broker o con la banca, devi avere per forza aver avuto un colloquio certificato con un *counsellor*, un tutor.

Onorevole Marco Causi: Lo volevo introdurre un emendamento, però abbiamo riflettuto, appesantiva delle cose, aumentando i costi.

Dott. Dario Focarelli: E' vero, è vero, infatti però la mia sensazione è che una terzietà da qualche parte potrebbe non essere negativa – naturalmente c'è sempre un rapporto costi benefici - quindi non ho la certezza su questa cosa. Negli Stati Uniti, leggo in questi giorni, che c'è una moderata ripresa su basi più solide. Forse questo è interessante per le nostre considerazioni. Per quanto riguarda gli umori oggi, ci sono mixed feeling. Da un lato la domanda di sanità integrativa e la domanda di LTC, sta crescendo tanto. Quindi da questo punto di vista noi rileviamo la domanda in forte crescita con quelli che a noi sembrano i prodotti assicurativi più coerenti. Dall'altra, però se nell'idea del prestito ipotecario c'è quello di avere una vecchiaia serena, sicuramente questa è una parte che è più importante. Molte delle difficoltà che all'epoca si riscontrarono, sono ancora lì, non tanto quelle legali sugli eredi sul quale qualcosa è stato fatto dalla legge, ma un po' tutte quelle che diceva Franco e Marco ripeteva. Quindi, come dire, da un lato vediamo la domanda che vorrebbe quel tipo di prodotti, che ha difficoltà finanziarie, dall'altra ancora non siamo convinti che il matching tra il prezzo del vitalizio e quel tipo di necessità si possa creare. Secondo punto, cosa si può fare per allargare il mercato. Molto è stato detto, io penso che il prestito vitalizio non deve essere una forma pensionistica alternativa, cioè bisogna convincere le persone che le persone devono continuare a pensare alla propria pensione, naturalmente anche alla propria pensione integrativa, perché senza pensione integrativa difficilmente possono avere una vecchiaia serena. Quindi non deve essere visto, "va be non c' hai pensato fino ad adesso, se c'è la casa in qualche modo risolvi il fatto che non ci hai pensato". No purtroppo bisogna pensarci. Diciamo che questo prodotto può essere una forma pensionistica complementare e non alternativa alle forme pensionistiche. Questa è la mia sensazione. Detto questo a me sembra molto importante diciamo sia le considerazioni che ha fatto Marco sulla questione della tassa di successione e in generale sul trattamento fiscale. Non c'è dubbio che c'è una connessione molto forte con il motivo di lasciare agli eredi la casa, il fatto che questo prodotto possa avere delle difficoltà implementative. Quindi sicuramente condivido da economista prima ancora che da direttore dell'ANIA le considerazioni di Marco. A me sembra che il punto molto importante è proprio quello di cui parlavo prima, cioè se nella finalità del prestito c'è avere anche una vecchiaia serena, se questo strumento è più efficiente della nuda proprietà come diceva il prof. Ferri, è proprio perché meglio si adatta alle esigenze della persona che la sceglie. La nuda proprietà è inefficiente ma per chi? per chi teme di essere malato? per chi teme di diventare non autosufficiente, per quale motivo? Ovvio se sei malato vivrai meno della media e quindi vendere la nuda proprietà per te è una perdita secca. Avere la nuda proprietà per un non autosufficiente, ma che ci fa? Ecco questo è il punto fondamentale della cosa. A me sembra che serva uno sforzo, questo lo dico agli amici consumatori ma anche agli amici delle banche. Uno sforzo per capire che questo strumento ha una grande valenza se si colloca al bisogno di serenità per gli ultimi vent'anni della tua vita. Se questa cosa qui diventa soltanto un modo per pagarti i vecchi debiti o peggio per averne di nuovi non va bene, per tanti motivi. Per questo è fondamentale. La riflessione sulle case famiglia, è una riflessione che, devo dire la verità, qualcuno di quelli che si occupavano di residenze assistite avevano già messo sul tavolo: la casa famiglia ha una funzione ottimale per tanti punti di vista, poi non è facile convincere gli anziani. Per quanto riguarda le applicazioni pratiche, la Lombardia ha fatto qualcosa d'interessante.

Onorevole Marco Causi: C'è un enorme problema di legislazione urbanistica. Ci stanno provando a Genova.

Dott. Dario Focarelli: Io so che in Lombardia è stato fatto qualcosa.

Onorevole Marco Causi: Devi avere l'autorizzazione. Per esempio, in edifici storici con grandi appartamenti devi autorizzare a dividerli in appartamenti più piccoli. Quindi c'è un problema rilevante urbanistico. Nel non farlo siamo molto inefficienti, perché stiamo usando il nostro stock di proprietari immobiliari in Italia in modo non molto efficiente rispetto ai bisogni sociali. Quindi è un elemento non solo dei tuoi dati.

Dott. Dario Focarelli: Assolutamente si, per questo secondo me per la diffusione del Prestito vitalizio ipotecario è fondamentale la finalità. Cioè se noi riusciamo a capire che la finalità è la vecchiaia serena, e che questo è uno strumento integrativo per la vecchiaia

serena, secondo me è molto più facile. Se invece l'idea è avere un nuovo modo per fare debiti, ovviamente questo non è socialmente accettabile. Sul terzo punto, condivido quello che ha detto la dottoressa Colla, che questa è una grande occasione e una ulteriore spinta da parte di tutti quanti noi sull'uso consapevole del denaro. Io aggiungo anche l'invito ad una cultura previdenziale e assicurativa. Qui c'è un bisogno estremo della popolazione di capire che una volta che lo stato ha ridotto in qualche modo il suo livello di copertura, qui davvero il cittadino ha bisogno di una conoscenza dei suoi bisogni previdenziali e assicurativi molto più forte del passato. Grazie.

Dott. Franco Locatelli: Grazie mille. Beh, sul terzo punto diciamo che stiamo raccogliendo l'unanimità dei consensi. Poi naturalmente si fa presto a dire educazione finanziaria, poi come farla? Chi la deve fare? In che forme? Si aprono tanti problemi. Però intanto sarebbe utile fare informazione prima ancora che educazione. Informiamo sulle novità che la legislazione ci offre. Passiamo dalle assicurazioni alle banche. Il dottor *Maurizio Iacovissi*, a cui cedo subito la parola, rappresenta qui Banca Intesa San Paolo, che è forse la prima banca che si è attivata; una delle poche banche che ha il grande merito di essersi attivata sul fronte dei Prestiti Ipotecari Vitalizi. Infatti, sia la previdenza che la casa sono due grandi temi di Banca Intesa San Paolo che sta ripensando al proprio business model, capendo che il compito di una banca oggi non è solo quello di fare dei prestiti ma è anche quello di cogliere nuovi bisogni: quindi il *welfare management*, il risparmio gestito. Per cui chi meglio del Dott. Iacovissi ci può dire che cosa sta facendo Banca Intesa San Paolo e rispondere alle tre domande iniziali. Prego.

Dott. Maurizio Iacovissi - Banca Intesa Sanpaolo, Dirigente Area Roma Nord: Buonasera a tutti. Ringrazio ovviamente il Magnifico Rettore di questo invito ricevuto per questa interessantissima discussione. Provo a dare qualche dato, ancorché si tratta di un prodotto giovane, praticamente stiamo operando da pochi mesi, perché abbiamo fatto una base di lancio ed operato su quattordici filiali per capire il prodotto come girava, anche in termini puramente tecnici. E poi c'è stato il lancio in tutti i nostri sportelli. Ad oggi abbiamo raccolto mille richieste di informazioni, cioè quando le persone sono venute e abbiamo fatto una offerta di carattere commerciale. Le persone hanno ritirato un'offerta dove andavamo ad indicare e dettagliare il prodotto in tutti i suoi aspetti. L'erogato va sui circa 4 milioni di euro. Il taglio medio è stato di 160 mila euro, e vi aggiungo che i richiedenti sono proprietari di immobile di target elevati. Cioè sono metrature importanti. Tra l'altro il prodotto prevede dei limiti di erogazione proporzionalmente al valore del cespite, ma anche proporzionalmente all'età dei richiedenti. Bene, fino ad adesso abbiamo riscontrato che non c'è una richiesta del massimo previsto, possibile, potenziale - noi abbiamo previsto un minino di 30 ed un massimo di 400 mila euro – ma la richiesta della clientela che si è avvicinata a noi, si è sempre posizionata su un limite del bisogno "no mi serve questo e questo voglio". Questo è importante perché fa capire che chi si è accostato ha approfondito, ha anche compreso effettivamente a che cosa serve questo prodotto. Il dottore prima sottolineava dicendo che 'non deve essere un'altra forma d'indebitamento e non dobbiamo facilitarlo'. Noi di Intesa-San Paolo non lo abbiamo facilitato assolutamente, tanto è vero che noi prevediamo che questo non sia concesso per sanare debiti pregressi, assolutamente. Abbiamo indicato ai nostri addetti nella vendita, presentando il prodotto come un aiuto diretto ai figli o piuttosto l'esigenza di rispondere ad un bisogno. Tanto è vero che uno dei motivi di richiesta è quello di avere una provvista finanziaria per soddisfare un bisogno di assistenza (come la necessità di badanti). Quindi da questo punto di vista siamo molto accorti nel presentare il prodotto, proprio per quello che deve essere – e qui sta emergendo – ossia come una forma integrativa e non una forma previdenziale. Anzi noi dal punto di vista di provvedere all'educazione finanziaria siamo assolutamente d'accordo. Il prodotto che è stato costruito anche insieme alle associazioni dei consumatori, accoglie l'esigenza di sicurezza e trasparenza; tanto è vero che noi pretendiamo che al momento dell'esposizione del prodotto ai proprietari ci sia la presenza dei figli, proprio perché vogliamo far capire e comprendere non solo quello che accadrà durante la vita del finanziamento ma anche quello che accadrà dopo. Tanto è vero che prevediamo che nei dodici mesi successivi ci sia la facoltà, da parte degli eredi di provvedere e sondare il mercato per verificare la possibilità della vendita dell'immobile, e

il perito che viene eventualmente incaricato è un perito esterno, non interno della banca. Tra l'altro per dare delle indicazioni, ogni quattro anni ci sarà una perizia a nostro carico, per vedere lo stato di manutenzione dell'immobile, in maniera tale da verificare sempre la commerciabilità dello stesso. Qui è stato sollevato il tema dei limiti che sono stati imposti rispetto alle città, alle location dell'immobile. Abbiamo previsto che su aggregati inferiori a 30 mila abitanti non si possa fare questo tipo d'intervento. Ciò non toglie che ci sono delle deroghe, perché un conto è andare in un paesino che sta in mezzo al nulla, un conto è andare a Cortina d'Ampezzo. Non so se Cortina d'Ampezzo faccia più di 30 mila abitanti, però sicuramente la commerciabilità lì c'è. Quello che guardiamo in questo momento è la commerciabilità; però ripeto per esperienza personale, che quando si lancia un prodotto, c'è sempre una cautela molto forte, con dei limiti ben precisi, per poi man mano che andiamo avanti, renderci disponibili a valutare situazioni diverse nell'evoluzione del prodotto stesso. Quindi non do mai per scontato che le cose siano così da qui all'eternità, come quello che era stato già detto sulle liquidazioni graduali, piuttosto che quella di unica soluzione, come avviene adesso, al consolidamento dell'ipoteca. Quindi sono tutte correzioni che si possono assolutamente fare. Quello che ci riproponiamo, e accolgo anche l'invito sull'educazione finanziaria, che è un tema che ci riguarda in prima persona secondo me, come attori del mercato, che quella sicuramente di farci promotori – noi abbiamo delle possibilità importanti – per esempio abbiamo tutta una serie di eventi informativi d'informazione finanziaria che facciamo all'interno delle nostre filiali. E sicuramente questo del Prestito vitalizio sarà uno dei temi più ricorrenti che dovremmo mettere in cantiere, in tal senso stiamo lavorando. Ed è un prodotto che sicuramente va presentato nel giusto modo, anche perché bisogna sfatare tutta una serie di cattive conoscenze tipo che la banca diventi proprietaria dell'immobile. Noi siamo mandatari, non diventeremo mai proprietari dell'immobile, assolutamente, né questa è la nostra vocazione. Anzi ci auguriamo che l'immobile rimanga sempre all'interno dell'asse ereditario anche in una prospettiva futura. Però rappresenta effettivamente una forma di acquisizione di liquidità che in alcuni casi può risolvere problemi; immagino i figli che debbono avviare attività, o piuttosto far fronte a spese impreviste che devono essere risolte in qualche modo. Quindi sicuramente da questo punto di vista devo dire che anche chi si sta accostando al prodotto, lo sta facendo nella giusta misura. Forse questo dipende anche da come siamo noi che presentiamo e curiamo la presentazione del prodotto stesso e delle sue finalità. Ne dico un'altra, noi chiediamo se ci sono degli altri immobili presenti nell'ambito familiare. Infatti, se c'è una seconda casa perché andare ad ipotecare, e rendere indisponibile, tra virgolette, la prima, mentre si può lavorare sulla seconda in termini assolutamente diversi. Sul tema finale dell'educazione finanziaria, prescindendo anche da questo prodotto, mi piace, visto e considerato che è un tema caldo che sicuramente è interessante, che da un questo punto di vista noi lavoriamo molto con i giovani: con le scuole e con le università. Anzi poi mi auguro di avere l'opportunità di avere un breve colloquio con il Rettore e i professori, perché noi stiamo portando studenti universitari e scuole superiori all'interno delle nostre officine prodotto, le nostre banche prodotto, proprio per avvicinarli, perché comprendiamo che se dell'informazione finanziaria bisogna parlare in questo paese bisogna iniziare dai giovani; per immaginare un futuro un po' diverso, affinché non si verificano cose spiacevoli e sgradite come quelle che si sono verificate nell'ambito bancario, con alcuni istituti che non hanno certo rispettato quello che è l'analisi del profilo di rischio del cliente. Mi auguro così di avere inquadrato un po' tutto, non mi soffermo sui dettagli del prodotto in sé stesso, ma queste posso essere curiosità che magari si possono soddisfare in una seconda fase, con le domande. Non voglio togliere spazio a tutti voi. Molte grazie.

Dott. Franco Locatelli: Grazie. Certamente - poi vedremo con le domande - forse un elemento su cui bisognerà accendere i riflettori è anche quello dei costi. Sento dire da molti, che le perplessità riguardano soprattutto, non solo le pratiche burocratiche, amministrative, il problema degli eredi ma anche i costi, cioè il gioco vale la candela? E su questo naturalmente bisognerà approfondire, magari in senso relativo, nel senso che siamo di fronte a un mercato che sta nascendo, quindi è evidente che il problema va visto in termini anche di prospettiva, dinamici; però certamente se uno oggi è nella condizione o nella necessità di poter attivare un Prestito Ipotecario Vitalizio, vuol sapere quali sono i

costi oggi. Dalle assicurazioni e dalle banche, a cui poi torneremo, torniamo ai consumatori, con l'intervento del dottor *Carlo Piarulli* di Adiconsum. Prego.

Dott. Carlo Piarulli - Adiconsum: Buonasera a tutti, vi ringrazio dell'invito. Io vorrei bypassare rapidamente le cose che istituzionalmente preposti in quanto associazione consumatori dovremmo meglio focalizzare, perché sia l'Onorevole Causi che la collega *Mara Colla,* hanno già affrontato queste tematiche, nel senso che tutto quello che riguarda, le quote di rimborso allorquando io accendo il prestito, la garanzia con i cointestatari, il rapporto informativo tra capitalizzazione ed interessi, il periodo di riflessione, le cose che ha detto anche il *dott. Iacovissi* adesso. Come associazione consumatori insieme all'ABI siamo riusciti, attraverso quel famoso emendamento proposto a *Causi e Misiani*, a fare in modo che la legge recepisse sostanzialmente tutto quelle che erano le nostre perplessità o le lacune di questa vecchia legge, perché di quello si tratta, una legge del 2005, che dal 2005 al 2014 ha visto due contratti. La legge è del 2005, mai più applicata, nel senso che gli operatori del sistema bancario non hanno ritenuto che ci fossero le condizioni per l'applicazione, salvo poi, vuoi la crisi, vuoi la situazione del mercato immobiliare, vuoi la sollecitazione che come associazione consumatori abbiamo fatto anche ad ABI, alla fine ci si è ritrovati intorno ad un tavolo e abbiamo condiviso tutta una serie di questioni che hanno portato poi alla "novellazione" del dispositivo di legge. Poi il sistema bancario che l'ha fatto diventare proprio, e, ancorché con i tempi di questo pachiderma di un sistema che con comodo arriva alle soluzioni, non cinquanta banche del sistema bancario, ma quasi tre banche, forse quattro oggi, cominciano a ragionare su come portare questo prodotto ai consumatori. Per cui mi zittisco su questo fronte vorrei magari entrare in aspetti che vorrei definire quasi di carattere sociologico, sociale, più legati alla nostra mission.

Innanzitutto un passaggio molto veloce – questo è un pensiero personale – aborrisco l'idea che il PIV possa essere una forma d'integrazione alla pensione, intesa come prestazione integrativa, intesa come fondo pensioni, tanto per essere chiari. Allora, ho capito cosa significa, significa che se ho 600 euro di pensione e dal giochino porto a casa 50 mila euro, spalmo 50 mila euro nei 15 anni, 1500 euro al mese ci pago la badante, ecco, allora è un altro discorso. Però voglio cogliere questo elemento legato all'importanza di aver una adeguata capacità di reddito, per collegarmi immediatamente agli aspetti legati all'educazione finanziaria di cui tutti parliamo, ivi compreso noi associazioni di consumatori, forse ne parliamo anche troppo. Le banche ne parlano, secondo me, a dismisura ma probabilmente perché devono comunque portarsi avanti che è meglio dire alcune cose e poi rischiare di farne altre. Cosa voglio dire sostanzialmente, che questa parte rientra nella logica di fare veramente l'educazione finanziaria intesa come necessità che dobbiamo avere di rendere il consumatore e il risparmiatore responsabile e consapevole delle proprie scelte. Cioè, per il Prestito Ipotecario Vitalizio, così come per il proprio risparmio, non esiste che io consumatore sono più informato quando vado a comprare un paio di scarpe, un' automobile, piuttosto che quando investo i miei risparmi. Ha detto prima un collega, io mi fido di te dimmi tu, fai come fossero i tuoi soldi. Ci deve essere consapevolezza, responsabilità anche da parte del consumatore. Io sono molto critico nei confronti dei consumatori in questo, ma proprio per l'esempio che ho fatto prima, cioè io delle scarpe per fare running so tutto; vado al negozio di articoli sportivi e dico voglio quella scarpa, poi magari ascolto dei consigli ma voglio quella scarpa. Quando acquisto una automobile so che il bullone in fondo a sinistra viene da lì anziché da là. Quando vado ad investire io mi sono ritrovato mio fratello, endocrinologo che, della serie l'ignoranza su questa materia prescinde dal tasso di scolarizzazione, lui dice "ho investito in una cosa, tipo assicurazione, tipo 5%". Quindi questa cosa non esiste e allora noi dobbiamo stare attenti a questo e nello stesso modo dobbiamo ragionare del Prestito Ipotecario Vitalizio perché è un modo per investire, diciamo così, allocare quella cosa che non è il risparmio ma è il de-accumulo di un sacrificio che comunque ho fatto. Allora come si colloca il prodotto del Prestito Ipotecario Vitalizio? Innanzitutto l'andamento demografico è noto a tutti, l'anzianità della gente sta crescendo in maniera esponenziale, e questo è il primo dato. Il 30% della popolazione ha più di 60 anni. Facciamoci due ragionamenti su questo, con una aspettativa di vita che si sta allungando – è vero l'anno scorso c'è stato un anno in meno, sei mesi in meno - con pensioni che, attenzione, continuano ad essere

con una capacità di reddito relativamente bassa, e sappiamo anche che questo è un paese dove il 70% è proprietario di casa. E se ragioniamo con 70% dei proprietari di casa che hanno dai 60 ai 75 anni, che hanno figli di età media intorno ai 35 – 45 anni, scusate in questo paese hanno tutti la casa, a loro volta i figli. Quindi non voglio arrivare a dire che è un problema il vendere la casa, perché se siamo quattro fratelli e c'è l'appartamento dei miei nonni, fatemi capire, vuol dire che quei 110 euro ammesso e non concesso che andremo a vendere quell'appartamento diviso 4, forse è meglio che oggi si faccia un ragionamento su quella casa, perché può essere un modo per integrare effettivamente in questo caso, cioè andare incontro alle necessità. E qui sono molto d'accordo con le cose che sono state dette, il potenziale utilizzo, che può essere il giro del mondo in ottanta giorni, va ben ci può essere anche quello, ma ci può essere anche un problema legato alla non autosufficienza, il problema di carattere assistenziale sanitario, ci possono essere complementi di questo tipo. Ma non ultimo anche per il fatto che in questo paese dal 2007 – 2008 per la crisi finanziaria il vero ammortizzatore sociale di questo paese è diventata la famiglia, sono diventati gli anziani che fanno da ammortizzatore sociale e quindi non perché ho un problema di assistenza o di RSA etc etc, non perché fortunatamente ho problemi di carattere sanitario, solo perché voglio dare una mano ai miei figli, e quindi de-accumulo, faccio anche quello, perché in questo paese da quando ormai, più di dieci anni, l'ammortizzatore sociale è diventata la famiglia. Qui infatti prima interloquivamo con il dottor Onorevole Causi, io ho dei dati diversi rispetto alla nuda proprietà; cioè da circa cinque anni io ho dei dati per cui è aumentato l'utilizzo della nuda proprietà da parte del consumatore. Questo è coerente con le difficoltà delle famiglie a sbarcare il lunario, come sempre, e che mettono in vendita la propria casa, la nuda proprietà per aiutare componenti della famiglia, sapendo che con la nuda proprietà ha un abbattimento notevole del valore dell'immobile. Ed ecco che probabilmente questa opportunità, perché poi noi non siamo qui a sponsorizzare il prodotto della banca XYZ, così come il prodotto finanziario XYZ, ma la nostra mission è quella di fare in modo che la gente sia consapevole delle opportunità che ci sono e di come queste cose possono essere al meglio utilizzate e quindi questo può essere un ulteriore strumento. Quindi la visione legata a questa prodotto di vederlo come una opportunità, nessuno obbliga niente a nessuno. Non lo so se sono cambiate le cose ma quando ci siamo visti nell'ultimo incontro con Intesa San Paolo e tutte le associazioni che hanno presentato il prodotto, ci hanno detto, tra l'altro, una cosa interessante, cioè che non è un prodotto a budget nelle filiali, motivo per cui no non si va a spingere a vendere questa cosa. Quindi a maggior ragione va valorizzato come opportunità, come una cosa che non c'era e oggi c'è, nei hai la necessità, utilizzala in modo consapevole, sapendo che non te ne devi andare a giocare alle macchinette, alle slot machine, piuttosto che con qualcuno di nuovo di fare il giro del mondo, ma deve essere una modalità per proseguire nella vita in quella direzione. Quindi credo che questi siano i passaggi importanti, con la consapevolezza, che quello che sto facendo in questo momento può essere utile, sapendo in quel corollario in cui s'inserisce; quindi l'andamento demografico, il tasso di proprietà che abbiamo e così via. Grazie.

Dott. Franco Locatelli: Grazie a lei, anche per essere stato coinciso e la chiarezza con cui ha esposto le cose. Adesso torniamo alle istituzioni andiamo alla voce dalla Banca d'Italia con l'intervento del dottor *Giovanni Guazzarotti*, del Servizio Stabilità Finanziaria del Dipartimento economia e statistica della nostra Banca Centrale. Prego dottore.

Dott. Giovanni Guazzarotti - <u>Banca d'Italia, Servizio Stabilità Finanziaria del Dipartimento Economia e Statistica</u>: Buonasera, grazie per l'invito. Io avrei preparato delle slides, vedo se riesco a proiettarle. Ho pensato a questo contributo di fornire dei dati dall'indagine di bilancio delle famiglie. Un attimo solo. Ho pensato all'intervento di dividerlo in quattro parti, ma siccome non abbiamo molto tempo salterò alla seconda. L'idea è che in una sorta di preambolo mi riaggancio a quello che è stato detto prima da diversi altri relatori, sul concetto che può collegare Prestito ipotecario e Previdenza Integrativa. Mi trovo d'accordo sul fatto che vi sono dei problemi concettuali che vanno chiariti. Quindi capisco il titolo del Convegno anche nell'ottica del progetto europeo. Il titolo è quasi provocatorio perché è qualcosa che s'immagina che si potrebbe costruire ma occorre ricollocare il Prestito vitalizio all'interno della Previdenza Integrativa, nel suo ruolo e nella

sua posizione forse più appropriata. Questa seconda parte la salterò e l'idea era proprio quella di vedere il Prestito ipotecario nella prospettiva nel sistema previdenziale italiano, di indicare quali sono i problemi del sistema previdenziale; dove si colloca effettivamente il rischio previdenziale e la misura in cui il Prestito ipotecario può riuscire a risolvere questi problemi. Nella terza parte vorrei dare alcuni numeri tratti dall'indagine sui bilanci delle famiglie della Banca d'Italia, una indagine intermedia che si è svolta nel 2015 in cui ci sono alcune domande relative al Prestito ipotecario.

Allora, una piccola riflessione iniziale. Il Prestito ipotecario ha il ruolo di aiutare le famiglie che hanno poche attività liquide ma hanno un valore immobiliare, una ricchezza immobiliare elevata a fronteggiare dei problemi di liquidità. Quindi il problema concettuale è: può uno strumento che ha questi obiettivi, avere un ruolo, una funzione anche nel sistema di Previdenza complementare? Lo può fare ma entro certi limiti. Il primo limite è che lo strumento serve per mobilizzare la ricchezza; il problema previdenziale è un problema soprattutto di pianificazione finanziaria di lungo periodo e, come già è stato detto in precedenza, è un problema di risparmio, di accumulo. Ma c'è anche un problema di de-cumulo che nell'ambito di questa fase che è la fase del pensionamento del de-cumulo della ricchezza, lo strumento può svolgere un ruolo importante che è quello di andare a completare l'offerta dei prodotti appropriati a tal fine. L'altro aspetto è che non viene usato di fatto e tipicamente per finalità previdenziali, viene usato come strumento di liquidità. Quindi bisogna fare in modo per far sì che questo strumento di de-cumulo possa essere utilizzato anche per il de-cumulo della ricchezza previdenziale, quindi per finalità di lungo periodo, previdenziali. Ciò non avviene di solito perché chi usa questo strumento, di solito tipicamente è una persona che non ha problemi previdenziali ma di liquidità. Non necessariamente infatti chi ha poche attività liquide ha anche problemi di pensione integrativa di lungo periodo di previdenza. Salto queste slide che sono un excursus sui problemi sulla Previdenza complementare, e vado direttamente al problema del de-cumulo del risparmio. Sappiamo che secondo la teoria economica nella fase finale della propria vita il risparmiatore dovrebbe de-cumulare la propria ricchezza finanziaria o reale. Ciò non si fa, quindi questo è un problema, ci si chiede come mai, e questo problema di solito lo si giustifica facendo ricorso a problemi comportamentali dell'individuo che non riesce a pianificare per il lungo periodo o ad altri possibili cause. Alcuni studi sulla Rendita Vitalizia che sono uno strumento del de-cumulo, hanno messo in evidenza che i fattori principali dietro a questo comportamento sono l'educazione finanziaria, che è fondamentale per la pianificazione di lungo periodo, il reddito dell'individuo, per cui molto spesso vi sono vincoli di liquidità che si frappongo a queste scelte ed infine anche i prezzi, i costi di questi strumenti. In effetti questa scelta non è necessariamente una necessità e quindi la curva di domanda per questi prodotti non è necessariamente rigida. Per esempio alcuni studi sulle Rendite Vitalizie hanno mostrato come l'elasticità ai prezzi sia abbastanza elevata. Altri studi hanno mostrato come in Italia e in tutti quei paesi dove questi mercati sono poco sviluppati, i prezzi non sono efficienti e sono troppo elevati. Questi due problemi insieme possono indicare una delle possibili soluzioni al problema. In questa slide, troviamo un riassunto dei vari fattori che possono spiegare perché il de-cumulo del risparmio è così difficile. Ovviamente vi sono anche dei problemi dal lato dell'offerta, bisognerebbe aiutare gli intermediari ad offrire prodotti che siano adatti a questo tipo di scelte. Tra i rischi principali di prodotti dal lato dell'offerta vi è il rischio di longevità aggregato, non quello individuale per cui l'individuo cerca di non affrontare il proprio rischio di longevità, attraverso questi strumenti. Ma anche a livello aggregato noi sappiamo che questa difficoltà di prevedere la longevità a livello aggregato, può creare dei rischi notevoli da parte degli intermediari che non riescono a coprirsi da questi rischi perché non vi sono strumenti di indicizzazione appropriate. E poi altri problemi come quelli delle asimmetrie informative sia dei prezzi che dei costi, di cui ho parlato in precedenza. Dopo aver parlato velocemente di questi aspetti adesso cerco un po' di darvi questi dati che penso possano essere il contributo più importante a questo Convegno. Questi presentati sono dati presi da fonti statunitensi e dal Regno Unito, che mostrano il mercato dei PIV, dei Prestiti ipotecari negli altri paesi. Vediamo in effetti questo grosso boom nel mercato americano che è la linea rossa, che si è avuto negli anni 2000, e la crisi successiva di cui parlava

Dario in precedenza, dovuta non soltanto a questi problemi di rapporto fra cliente e intermediario, ma anche la crisi immobiliare ovviamente, ha dato il colpo decisivo. I dati sul 2015 non vi sono, ma confermo che il mercato è in ripresa abbastanza forte e intensa. Per quanto riguarda l'Italia, nell'indagine sul bilancio delle famiglie del 2015, sono state rivolte a circa settecento famiglie alcune domande sul Prestito Ipotecario. Le domande sono state poste a chi aveva settanta anni, ed era proprietario almeno di una abitazione. Le domande principali sono: se conosceva questa forma di finanziamento; se l'avesse utilizzata nel caso ne avesse avuto bisogno; se non è interessato per quali motivi. Questa slide ci mostra come la conoscenza dello strumento è molto scarsa. Quindi dopo dieci anni della legge precedente, come giustamente è stato sottolineato, siccome l'offerta non c'era e siccome l'offerta non c'era, nessuno conosceva lo strumento. Conoscenza molto bassa, soprattutto laddove potenzialmente uno vorrebbe che questo strumento intervenisse per risolvere problemi principali, cioè chi ha una educazione inferiore magari ha un reddito inferiore, qui ho messo soltanto la correlazione con l'istruzione perché è un fattore importante per l'educazione finanziaria, ma ovviamente se mettiamo indicatore di reddito, ricchezza etc, la figura non cambia. Chi conosce questo strumento è comunque poco interessato. Nella prima riga abbiamo una quota di famiglie che sono interessate, un 12% - 13% di chi lo conosce, quindi non è elevata. E poi abbiamo delle caratteristiche tra gli intervistati che si dicono interessati e gli altri. Ciò che si vede è che per quanto riguarda l'istruzione vediamo che chi è interessato è più istruito e questo ce lo aspettavamo. I più interessanti sono i comportamenti delle variabili di reddito e di ricchezza e di valore dell'abitazione. Vediamo che chi è interessato ha un reddito molto maggiore in media di chi non è interessato, ha una ricchezza totale maggiore, una attività finanziaria maggiore, ha un valore dell'abitazione molto maggiore e ha attività finanziarie liquide basse, inferiori alle altre. Quindi qui vediamo ancora una volta, da questa slide, il riflesso di quello che si diceva all'inizio. Chi è interessato e quindi chi potenzialmente o tipicamente potrebbe utilizzare questo strumento, forse non è il risparmiatore, o l'anziano che più ne avrebbe bisogno a fini previdenziali; è una persona che ha una ricchezza finanziaria abbastanza elevata, in media elevata, ha un reddito abbastanza elevato, probabilmente dei problemi di liquidità infatti le attività finanziarie e il liquidi sono molto basse.

Intervento di Dario Focarelli: Giovanni scusa, quanti sono gli interessati, perché di quelli che conoscono il 12% gli interessati sono elevati?

Dott. Giovanni Guazzarotti: Questo lavoro è stato fatto da una mia collega, *Valentina Michelangeli*, lei ha provato a fare una stima econometrica della probabilità utilizzando tutte le variabili significative che sono le attività finanziarie liquide e il valore dell'abitazione e il mercato potenziale in base a una stima della probabilità è di circa 1,2 milioni di famiglie. Quindi è abbastanza elevato. Il problema è che..

Intervento di Dario Focarelli: Questo è il meccanismo iniziale. Ma quelli che si sono dichiarati interessati.

Dott. Giovanni Guazzarotti: 12%.

Intervento di Dario Focarelli: No, il 12% sono quelli che io conoscono.

Dott. Giovanni Guazzarotti: No, questi sono quelli che lo conoscono. Il 12% sono gli interessati.

Prof. Aurelio Valente: Ma quello in favore dell'abitazione di residenza?

Dott. Giovanni Guazzarotti: No, della ricchezza reale. Residenza e no.

Prof. Aurelio Valente: No, l'ultimo: valore abitazione.

Dott. Giovanni Guazzarotti: Non lo so, non lo so.

Dott. Franco Locatelli: Quindi è uno strumento che interessa non tanto le fasce più deboli ma la classe medio, medio – alta?

Dott. Giovanni Guazzarotti: Si. Sono risultati che riflettono anche gli studi fatti di altri paesi, quello statunitense, non sono risultati anomali, e riflettono quel cash-poor e house-rich di cui diceva lei.

Prof. Aurelio Valente: E' importante il valore dei non interessati, il valore dell'abitazione, cioè nel mercato potenziale dei PIV è dato proprio da quella fascia. Cioè c'è gente che ha una abitazione media di 158 mila euro, ha problemi, ma non conosce il prodotto. La crescita può avvenire su quel segmento. La materia prima c'è, la casa.

Dott. Giovanni Guazzarotti: Son d'accordo. Infatti questa slide è propedeutica a questo tipo di riflessione. Vogliamo tornando al titolo del Convegno fare in modo che questo strumento diventi anche un aiuto alla Previdenza Integrativa, bisogna lavorare non su coloro che tipicamente lo utilizzano, ma sugli altri. E non è scontato, perché c'è una ragione perché sotto.

Prof. Aurelio Valente: La materia prima c'è.

Dott. Giovanni Guazzarotti: Non è scontato e vi sono delle difficoltà che sono collegate alle difficoltà che la letteratura economica ha mostrato esserci per tutti gli strumenti del de-cumulo della ricchezza, ecco perché in precedenza vi erano delle slides sulle Rendite Vitalizie, perché possiamo utilizzare quella letteratura per capire gli ostacoli anche di questo strumento.

Questa qui è la motivazione del disinteresse. Quindi vediamo che la conoscenza del prodotto non cambia tra il totale del campione e chi è potenzialmente interessato, questa cosa è interessante. Tra le cause vediamo che più o meno la percentuale si distribuisce. Qui si poteva dare al massimo due preferenze, quelle percentuali non sommano 100. E vediamo che le motivazioni ci sono tutte di quelle che conosciamo. Sono però motivazioni che hanno poco a che fare con la Previdenza Integrativa, quindi qui torniamo al punto iniziale. Quindi la prima è la paura d'indebitarsi; la seconda è "preferisco venderla, che forse ottengo un prezzo maggiore"; la terza è "non voglio indebitare gli eredi"; e infine "non voglio continuare ad avere la disponibilità dell'abitazione in caso di eventi imprevisti".

Quindi questa è la situazione da cui partiamo, da dieci anni di legge precedente, con delle esigenze differenti dovute a problemi di criticità del nostro sistema previdenziale, a problemi della Previdenza Integrativa, alla demografia che cambia e con una legge diversa. Quindi possiamo capire quali possono essere le vie verso cui procedere per fare in modo che questa nuove esigenze demografice e previdenziali possano in un certo senso essere in parte risolte anche con questo strumento. La nuova legge è sicuramente molto importante, qui è inutile che sto a leggere questa cosa perché, mi sembra che se ne è parlato a sufficienza. Però è importante come l'offerta sia aumentata. Io ho qui, da un rapido controllo, mi sembra che tra prodotti in essere oppure prodotti che verranno emessi, ce ne sono quattro Intesa San Paolo, MPS, Unicredit Popolare di Sondrio. Corretto?

Prof. Aurelio Valente: Forse si sta aggiungendo un'altra.

Dott. Franco Locatelli: E una quinta, una piccola banca.

Dott. Giovanni Guazzarotti: A me sembra quindi che questa cosa lasci molto ben sperare perché l'offerta prima di tutto. Per la conoscenza ci vuole l'offerta, con l'offerta la diversificazione e dell'offerta si va incontro ad esigenze differenti dei vari gruppi di popolazione, si crea concorrenza. Ora attenzione, affinché la concorrenza possa dare i suoi frutti, bisogna che gli strumenti siano confrontabili. Il mercato delle Rendite Vitalizie ha mostrato esempio che nei paesi anglosassoni, è bastato un sito internet che mettesse a confronto le varie offerte in termini di costi, LTV, ammontare massimo, e tasso etc., per fare in modo che la domanda facesse scattare la concorrenza e si avessero un miglioramento anche in termini di costi. La legge ha funzionato perché l'ammontare massimo concesso è molto maggiore in effetti, il LTV è maggiore, l'età si può concedere se ridotta. Confrontando MPS del 2013 con vecchia legge e Intesa del 2016, risulta appunto che l'ammontare massimo è raddoppiato all'incirca. Quindi le condizioni contrattuali a vantaggio dei beneficiari sono migliorate chiaramente. E questo è un altro aspetto positivo.

E poi le tutele per gli eredi. E quindi passo alla conclusione riagganciandomi a riflessioni iniziali, e al tema Convegno e cioè è possibile che il Prestito ipotecario sia uno strumento di Previdenza complementare e anche qui, come è stato detto in precedenza, io ritengo che il PIV non è una forma pensionistica integrativa. Quindi raccogliamo la provocazione del titolo del Convegno, del progetto europeo, però dobbiamo capire che il PIV si colloca a una posizione particolare all'interno della problematica previdenziale. E' uno strumento di de-cumulo della ricchezza che, tipicamente serve a quegli individui il cui problema principale non è quello previdenziale. Però possiamo utilizzarlo per completare – e qui termino – per fare in modo che questi due aspetti s'incontrino. L'offerta deve indirizzarsi verso prodotti che includano servizi previdenziali – ne abbiamo parlato prima soprattutto Dario ne ha parlato – quindi occorre che questi contratti vengano collegati a strumenti per gestire il rischio di longevità che è l'aspetto principale degli strumenti di de-cumulo della ricchezza, e altri aspetti come il Long Term Care. Infine occorre che i beneficiari, capiscano che questo strumento può essere uno strumento per pianificare i propri bisogni previdenziali di lungo periodo. E' un prodotto tipico della Previdenza complementare, uno degli ostacoli principali all'adesione dei lavoratori ai fondi pensione, e quindi nella fase di accumulo, ma è anche un ostacolo importante per la fase di de-cumulo. E quindi ancora una volta strumenti di educazione finanziaria. Occorre un coordinamento nazionale, occorre una legge quadro, occorre una regia, occorre trasparenza dei prodotti e metodi per confrontarli e per fare in modo ci sia pianificazione finanziaria di lungo periodo.

Dott. Franco Locatelli: Grazie. Purtroppo il tempo corre veloce e quindi dobbiamo un po' accelerare, però mancano solo due interventi, quello del dottor *Raimondo Lucariello*, che rappresenta l'ABI, a cui do subito la parola; e poi l'ultimo intervento del professor *Aurelio Valente*. Prego.

Dott. Raimondo Lucariello - Associazione Bancaria Italiana: Grazie, ringrazio chiaramente il professor *Murro* e l'Università per questo invito e anticipo i ringraziamenti anche nei riguardi dei colleghi con cui abbiamo collaborato in questi anni e poi hanno consentito all'Onorevole *Causi e Misiani* di portare avanti da quegli spunti. Moltissimi temi sono stati trattati, quindi, per vostra fortuna non li ripeto. Andrò in slalom sulle varie iniziative e considerazioni.

Dott. Franco Locatelli: E questo è il vantaggio di chi parla dopo.

Dott. Raimondo Lucariello: Esatto. Anzitutto abbiamo un mercato di riferimento che Banca d' Italia, con dati del 2015, ci dice che Il 75% degli over 64 anni è proprietario di almeno un immobile, solo l'1,8% è indebitato per un taglio medio di 20 mila euro. Il valore medio delle abitazioni è di circa 210 mila euro, quindi il mercato potenziale sul quale si può sicuramente lavorare. Il Prestito Ipotecario Vitalizio come tipologia di finanziamento che sicuramente da molti benefici al consumatore che può entrare il proprio reddito, può andare a fare il famoso viaggio del giro del mondo in ottanta giorni, e soprattutto può mantenere sia possesso che proprietà dell'immobile, a differenza della nuda proprietà dove la proprietà è già andata. Per il il finanziatore sussistono notevoli rischi. Innanzitutto una durata incerta del contratto: è uno dei pochi casi nei quali si avvia un contratto di cui non si conosce quando si concluderà; non c'è sicuramente una tutela rispetto ad un ipotetico aumento del tasso d'interesse; la variabilità del valore immobiliare: il mercato può essere in crescita, in diminuzione – immaginate quello che è accaduto negli scorsi anni - e non solo c'è l'oscillazione del prezzo, quindi delle compravendite del valore di mercato dell'immobile, ma anche un decremento generalizzato del valore della proprietà semmai causato dai soggetti che vi abitano. C'è un rischio reputazionale fortissimo, non si può non considerare che questo, appunto all'erede e dice 'hai erogato un prestito a chi non aveva piena capacità d'intendere e di volere' ma perché semmai è un atteggiamento opportunistico, non perché davvero si intenda così. Quali sono quindi questi elementi? Se quella norma quadro del 2005 era poca cosa e dava delle indicazioni, con il nostro percorso famiglia all' epoca, l'accordo abbiamo dato quelle che noi consideriamo delle necessarie tutele e presidi nei confronti dei consumatori. In un mercato con regole più chiare e semplici, si danno maggiori e migliori informazioni, si hanno soprattutto consumatori consapevoli, non figli di un dio minore perché hanno una età avanzata, semplicemente

sono liberi di scegliere se adottare o meno. Quindi abbiamo inserito obbligo di co-intestazione, no negative equity, un altro elemento che viene preso dalla banca dal momento in cui il valore del prestito andrà a superare il valore dell'immobile alla vendita. Consentire, giustamente, agli eredi di rimborsare il debito ed entrare in possesso nel quale avranno vissuto quando erano ragazzi, giovani, soprattutto a disciplinare gli eventi di estinzione del finanziamento. Anche gli aspetti della vendita sono altresì importanti. Questo è stato per noi un elemento caratterizzante e che ha anche comportato quel lavoro successivo, anche con le associazioni dei consumatori, per quanto riguarda la pubblicazione del regolamento del Ministero dello Sviluppo Economico, che non è stato pubblicato più tardi di ottobre, cioè sono in sostanza tre mesi che abbiamo un quadro regolamentare più chiaro. Attenzione, questo per quanto riguarda il lato consumatori. Per quanto riguarda le banche sappiate che per ponderazione del rischio, siamo tra tecnici, ce lo possiamo dire, abbiamo una ponderazione del rischio pari ad una esposizione non garantita, quindi al 75% l'esposizione retail e non è equiparata al mutuo ipotecario al quale andiamo a dare la ponderazione del rischio del 35%. Questo è quanto ci viene detto da Banca d'Italia nel 2012 con una comunicazione. Abbiamo quindi rinnovato la nostra richiesta a fronte della nuova legge per dire: "guardate in tutto il modo accade che accantoniamo capitale al 35% per questa tipologia di prestito, consentiteci di fare lo stesso anche in Italia". Per quanto riguarda il regolamento sulla trasparenza, gli obblighi di informativa già sono stati detti, dobbiamo evidenziale in percentuale quanto prestito diamo rispetto al valore di mercato dell'immobile. Quindi il valore di mercato dell'immobile è 100, noi dobbiamo evidenziare quanto in percentuale, quindi 40%, 30%, 50%, 60%. Lo facciamo annualmente attraverso un invio con prospetto, col quale andiamo ad indicare quanto è ancora da rimborsare, e quanto è stata la capitalizzazione degli interessi. E, infine, poi c'è tutta una serie di ipotesi di risoluzione del contratto, disciplinate del regolamento, per le quali sarà il finanziatore che dovrà sostenere i costi per dimostrarlo. Per esempio, hai abbattuto le mura, io lo vedo da fuori, dovrò richiedere un perito per andare a controllare l'operato. Questo controllo è necessario perché in quel caso è una risoluzione anticipato del contratto: cioè noi diamo un prestito a fronte chiaramente lasciando al legittimo proprietario la custodia, ma il valore e la conservazione del bene, che deve essere in buono stato di conservazione affinché successivamente gli eredi possano decidere di nuovo di rimborsare o di mettere sul mercato (ovvero, deve esserci la piena e libera circolazione giuridica del bene) diventa anche responsabilità della banca. Se vedo una veranda, e quella veranda è abusiva e non si può dunque mantenerla, si dovrà abbatterla. Ci sono, dunque, degli elementi particolari. Per concludere, sono state anche date ultimamente delle risposte a domande frequenti di modo che il mercato abbia maggiore conoscenza. Se ne è preso in carico il ministero dello sviluppo economico, il quale ha chiarito, appunto, che l'immobile può essere destinato al PIV, può essere anche la seconda abitazione, non quella di residenza. Sono state chiaramente estese alle unioni civili, al more uxorio prima dei cinque anni, e anche al caso di separazione per mantenere quello che veniva detto prima, e sicuramente sempre al coniuge più longevo si conclude il contratto, e anche se la proprietà dell'immobile appartiene ad uno solo. Piccolo elemento: il PIV è stato importante non solo per questi aspetti e ci auguriamo chiaramente che chi lo desideri lo possa andare a contrarre - chiaramente non è il nostro compito promuovere. Però è importante per quello che dicevo rispetto alla disciplina di vendita. Una disciplina di vendita che noi proporremo per l'inadempimento previsto dal decreto legge Murri, il dl 72, il quale prevede una norma, il 120 quinquies deces che ha dato molto da parlare quando fu pubblicata, ed era stata proposta ai tempi dalle associazioni consumatori a livello europeo, in ragione del fatto che si diceva il famoso *patto marciano*, ossia a fronte di un inadempimento si può prevedere prima, in fase precontrattuale andiamo ad inserire una clausola: io ti rimborso, ti restituisco le chiavi dopo diciotto mesi di rate – non è il caso di sette rate che riguarda la risoluzione del contratto ex. Art. 48 del testo unico – tutto ciò per dire che li non è proprio disciplinato il caso della vendita. Questo ci sembra l'elemento in cui il legislatore ha deciso, in cui il regolamento del Ministero ha potuto parlare sulle modalità di offerte e quindi la possiamo immaginare come una best practice, perché anche concordata dall'associazione consumatori, per adottarla anche su quell'altro piano che è sui mutui, quindi su più di 450 miliardi di consistenze, ma non è su quello ma è su quello

che verrà, un flusso di mutui notevole. Quindi questo a dimostrazione di quanto il PIV possa essere una best practice oltre sé stesso. Grazie, e restituisco la parola.

Dott. Franco Locatelli: Grazie molte. Allora siamo all'ultimo degli interventi della tavola rotonda, quello del professor Aurelio Valente, promotore ed esperto del Prestito Ipotecario Vitalizio, a cui chiedo la cortesia, data l'ora tarda, di mantenersi nei limiti.

Prof. Aurelio Valente - Esperto e promotore del Prestito Ipotecario Vitalizio: Bastano 5 minuti. Dopo tutti questi interventi non posso che manifestare gli apprezzamenti personali per il professor Giovanni Ferri, perché vi debbo confessare che la ricerca che ho proposto nel 2013 con l'amico, qui presente Carlo Girardi, su nuove soluzioni finanziarie per la terza età, è una ricetta che abbiamo fatto noi come ex Banca Italia in una logica di capire come mai in Italia, un prodotto così diffuso all'esterno non avesse fino ad ora mosso i primi passi. C'è stata una parentesi nella storia che JP Morgan ha realizzato subito dopo il 2005, poi c'è stata una crisi che ha portato JP Morgan ad uscire dalla struttura perché doveva optare o per il Private o per il finanziamento. Ovviamente ha optato per l'altro, e all'epoca possiamo dire che il sistema bancario italiano aveva capito che la legge, parlo di un piccolo emendamento, non era sufficiente. Dobbiamo apprezzare lo sforzo fatto dall' ABI e dall'Associazione Consumatori, che da questa nostra prima sommaria ricerca, che aveva una particolarità, individuava che se qualcuno voleva utilizzare questo strumento per preparare una certa riserva di liquidità, il buon Carlo Giraldi aveva valutato la possibilità di suggerirgli un investimento nel BTP Italia. Se questo stesso suggerimento fosse stato seguito da altri in altre realtà territoriali, non avremmo avuto quello che in effetti c'è stato. Perché? Perché dire che con questa operazione si rende liquida una parte dell'abitazione, non è del tutto di questa operazione. Questa operazione deve avere come base - che Intesa San Paolo ha avviato in risposta - un confronto tra famiglia e l'istituzione finanziaria. Si può ben dire che con questa operazione l'istituzione finanziaria fa un patto di collegamento funzionale e finanziario con l'intera famiglia, perché per tutta la vita del mutuatario, la banca è anche interessata – e le abbiamo viste – il mondo della perizia riguardo il valore vuol dire interessarsi anche della manutenzione ordinaria e straordinaria; vuol dire andare anche al Condominio, se c'è il progetto impegnativo, ad assistere il soggetto interessato, ovviamente con delle regole che prevedono che se uno fa un servizio sia ricompensato. Ma significa anche far conoscere la banca agli eredi. E in alcuni casi se posso accelerare il discorso, non è detto che con la morte del mutuatario si estingue il rapporto. Se la banca è attenta a seguire l'evoluzione del passaggio generazionale, sa già che il mutuo non lo farà il figlio, perché avrà già sessant'anni, augurando ottantacinque anni la morte del mutuatario, ma lo farà il nipote, perché il nipote ha quarant'anni e c'è da sperare che possa raggiungere una capacità di rimborso a trentacinque anni. Quindi è molto importante, e in questo sono d'accordo con l'impostazione che ha delineato il Governatore Visco, nella lectio magistralis a Trieste, che ha parlato di longevità, richiamata dall'amico Giovanni, che significa innanzitutto far capire che probabilmente non c'è un passaggio generazionale attraverso l'eredità se non attraverso un discorso convinto e precedente che si può basare sui discorsi della così detta donazione. Quindi la donazione, questa è indirettamente una formula di donazione fatta dal de cuius nel momento in cui vuole anticipare a favore dell'intera famiglia. E se un nipote deve frequentare un corso di specializzazione in Italia o all'estero, probabilmente il figlio non lo può aiutare, ma il nonno si, in questa situazione noi dobbiamo insistere molto sul discorso dell' educazione. L'educazione deve consentire alla famiglia intera di valutare se conviene fare la vendita, se conviene fare il vitalizio, se conviene fare il vitalizio con una formula che noi abbiamo suggerito, ed è stata citata dall' ABI, cioè di pagare gli interessi, perché no? Pagando gli interessi, anno per anno, si raggiunge un obiettivo di non stressare la famiglia, perché si verrebbe a mantenere il livello del debito in una maniera accettabile e condivisa sin dall'inizio, perché ci dobbiamo augurare che il de cuius che la banca ha accettato. Allora la flessibilità di uno strumento molto importante, perché ha condotto in altri paesi, vi leggo solo il dato di aggiornamento degli interessanti dati della Banca d'Italia: in Inghilterra una ricerca dell' Oxford Economics porta a dire che entro il 2040, un milione di inglesi avranno fatto questa operazione. L'altro aspetto importante che vi voglio dire sul collegamento istituzione finanziaria, fondazione, assicurazione e banche etc, c'è da lavorare, perché non

è detto che dei fondi dedicati a questa operazione possano avere un rendimento accettabilissimo da parte di tutti, ma possono avere una funzione sociale, per far si che quel prospetto che per me è un prospetto terribile, cioè noi abbiamo poveri in difficoltà che c' hanno case che valgono 150 mila euro e non sanno manco che possono attingere, quindi abbiamo molta strada da fare e grazie a Dio, al qui presente Onorevole Causi che vorrei associare anche il Senatore Giacobbe, abbiamo avuto questa legge, diversamente si sarebbe persa nei meandri. E lo dice uno che l'ha seguita passo passo, grazie anche all'impegno della comunicazione. Perché dobbiamo abbandonare quei percorsi qualunquistici di gente che per gettare fango sulle banche è arrivata a dire che con questa è un altra azione che consentiva alle banche di appropriarsi delle abitazioni.

On. Marco Causi: Espropriare le case per regalarle ai cattivi.

Dott. Franco Locatelli: Grazie. Noi siamo stati nei tempi previsti. Direi che al massimo possiamo concederci, se ci sono, due domande, ultra rapide, se no cedo il microfono al professor Ferri per le conclusioni. Se ci sono delle domande? Prego. Domanda ultra veloce.

Carlo Girardi: Velocissima. Per quanto riguarda l'aspetto del rischio di longevità.

Prof. Aurelio Valente: Se non l'avete capito è Carlo Girardi.

Dott. Franco Locatelli: Non si sente.

Carlo Girardi: Questo potrebbe essere in realtà coperto da compagnie di assicurazioni, oppure supportato, come avviene all'estero, da un contributo, diciamo, assicurativo prestato e accettato in termini di legge finanziaria. Se si riconosce la funzione sociale a questo prestito, perché no, chiedere un contributo che il rischio di longevità sia ridotto. L'Onorevole Causi mi sembra che parlasse di un problema sulle modalità proprio di erogazione di questo prestito vitalizio. Ci si può sbizzarrire, nel senso che si potrebbe pensare per l'erogazione ad un programma, ad un periodo di rodaggio triennale. Quindi adesso senza entrare nel particolare, la cosa molto importante invece è la trasparenza dei prezzi, nel senso che è determinante perché c'è il problema dell'anatocismo. Per esempio controllare bene questo punto e che non ci sia una capitalizzazione mensile degli interessi e che i tassi applicati siano tassi fissi, facilmente calcolabili sulla aspettativa di vita della persona che chiede l'erogazione di questo prestito, che poi tutto sommato è un prestito ipotecario. Queste modalità andrebbero considerate per evitare il problema della tentazione dell'espropriazione, che non esiste da un punto di vista bancario, e per rendere trasparenti queste modalità di fissazione dei tassi che naturalmente è concorrenza. Se poi c'è anche per esempio la disponibilità di stemperare i costi dalla possibilità di investire in strumenti di natura finanziaria se il soggetto non ha una necessità immediata del prestito, posto che è stato dato dalla differenza tra il costo del debito e il rendimento dell'investimento.

Dott. Franco Locatelli: Grazie. Allora rischio e rischi di vita, trasparenza sui prezzi: se non ci sono altre domande, ne aggiungerei una io velocissima per completare il discorso che aveva iniziato a fare il rappresentante di Banca Intesa, quando io gli chiesi, "beh forse una delle perplessità alla base dello sviluppo del Prestito Ipotecario Vitalizio è relativo ai costi". Allora siccome la teoria è molto interessante, però abbiamo anche dei casi concreti, se ci dice qualcosa sui costi per capire insomma come poterli valutare, portiamo un contributo ulteriore. Sui rischi di vita forse, oltre all'*Onorevole Causi*, il *dottor Focarelli* potrebbe dirci qualcosa, visto il riferimento che faceva la domanda in qualche modo è anche all'attività assicurativa. Dove cominciamo? Causi? Allora, costi, rischio di vita, Causi.

Dott. Maurizio Iacovissi: Per i costi faccio riferimento alle nostre offerte.

Dott. Franco Locatelli: Certo.

Dott. Maurizio Iacovissi - <u>Banca Intesa San Paolo</u>: Praticamente ci sono costi eccetto dei costi notarili, che sono a carico ovviamente del cliente, sono gratuite le spesi d'istruttoria, non sono previste spese d'incasso, non ci sono nemmeno previste eventualmente nel caso della estinzione anticipata, che può anche essere anche un caso contemplato. L'unico costo che c'è è il costo della perizia iniziale di sostegno e che è

proporzionale al valore dell'immobile: un prezzo medio sono € 300. Quindi questi sono gli unici posti che ci sono, non c'è altro. Quanto al tasso, naturalmente è a tasso fisso, posso anche dire per darvi una idea che è del 4%, e che da un punto di vista dell'offerta rispetto all' altra concorrenza è sicuramente il migliore. Al 4% il tasso viene fissato come di regola per tutti i mutui all'inizio del mese, ed è vigente per tutto il mese. Questo significa che se io faccio una istruttoria il primo di febbraio e comunico al richiedente che il tasso è il 4%, questo tasso vale per tutto il mese se si stipula e si eroga all'interno del mese. Un' altra cosa che mi piaceva dire, perché è stata ricordata più volte, è che nel caso della vendita dell'immobile il prezzo fosse inferiore, nessuno va a chiedere agli eredi di compensare la differenza, ma la banca si accolla la differenza. mi piace dire che li dove il prezzo fosse superiore la differenza superiore viene riconosciuta agli eredi. Questo a conferma che non c'è nessun esproprio, nessuna volontà assolutamente di fare di questo un business della banca, ma anzi di rientrare semplicemente all'interno del capitale. L'opzione poi, che offriamo all'atto dell'avvio della pratica – e questo d'intesa con il richiedente – è quello di potere rimborsare la quota degli interessi. Quindi proprio per dare la possibilità. C'è la possibilità nel corso della vita del finanziamento d'interrompere, se dovessero sorgere dei problemi, e a quel punto s'interrompe e inizia la capitalizzazione degli interessi stessi fino alla fine, quando sarà in vita il finanziamento. Se c'è qualche altra domanda.

Dott. Franco Locatelli: Aspetto assicurativo?

Dott. Dario Focarelli - ANIA: Io un flash sul tema della longevità perché questo è un tema che vorrei in maniera chiara da affrontare. Allora supponiamo che uno vada in Banca Intesa, si prenda il suo gruzzoletto e dica "va bene, lo investo in una rendita vitalizia, ho risolto tutti i miei problemi", oppure va da Intesa stessa o da a Intesa Vita o a qualunque braccio assicurativo di Banca Intesa, presente o futuro. Questo sistema non funziona, in qualche modo l'ha già detto Giovanni Guazzarotti. Perché non funziona? Perché l'attuale mercato delle rendite è un mercato che non funziona. Giovanni dice per vari motivi. Diciamo gli assicuratori da sempre vedono una questione di selezione avversa, cioè domanda la rendita solo chi sa che la sua mamma è vissuta fino a cent'anni, il suo papà a novantacinque anni, allora quasi sicuramente quella persona ti chiederà la rendita. Il mercato delle rendite è per noi un mercato difficilissimo, proprio perché il sistema di selezione avversa è molto forte. Quindi il meccanismo per cui Intesa da il prestito e poi va dalla compagnia X e si compra la rendita, funziona poco. Quello che funziona è quello che dicevo prima, la nuova non autosufficienza; tu paghi un capitale a sessanta anni, sessantadue, sessantacinque, e se diventi non autosufficiente scatta la politica. E' vero che pure li ci può essere un po' di selezione avversa per il quel motivo, però è in qualche modo più gestibile, futuribile ma in assoluto non impossibile è quello che vi dicevo: ti compri la Polizza sanitaria integrativa vitalizia. Futuribile perché oggi non c'è sul mercato ma in realtà è qualcosa che potrebbe probabilmente funzionare. Anche in questi casi ahimè il tema della selezione avversa non è proprio piacevole.

Dott. Maurizio Iacovissi - Banca Intesa San Paolo: Posso aggiungere una cosa che dimenticavo importante? E' gratuita, perché è a nostro carico la polizza incendio, scoppio tutto in uno. Che non è a carico del richiedente, che è un'altra cosa importante.

Dott. Franco Locatelli: Grazie. Allora un intervento brevissimo dell'Onorevole, poi chiudiamo. Cioè chiudiamo con le conclusioni del professor Ferri.

Onorevole Marco Causi: Io debbo veramente riprovare i miei ringraziamenti perché è molto inusuale, direi rarissimo che una persona come me che ha fatto un lavoro pubblico e parlamentare possa esserci di pomeriggio, a due anni di distanza, soprattutto il monitoraggio delle registrazioni. Guardate che uno dei problemi terribili di come funziona l'Italia, che noi facciamo le leggi con una scarsissima capacità di monitoraggio, in nostri apparati pubblici, i ministeri, il Parlamento. Invece oggi voi mi fate tornare a casa felice perché con tutti i dati che mi avete fornito, mi rendo conto che ho dato un piccolo contributo ad una cosa che sta mostrando efficacia e potrà acquistarne ancora di più se la miglioriamo, la incrementiamo con i tanti suggerimenti che sono venuti qui. Per esempio

quello che diceva Ferri è un dato interessante, perché se si può utilizzare il PIV con una linea di credito, perché non è Previdenza Integrativa, ma già facciamo un passo, quindi ragioniamo su questo. Invece io volevo dirvi, volevo darvi un po' di informazioni. Visto che tutti avete detto che il cuore del problema è la financial education degli italiani, no, noi abbiamo in Commissione Finanza una tabella dell'informazione, che sono testimone di quello che sta succedendo in parlamento. In Commissione Finanza, alla Camera, abbiamo lavorato ad un testo sulla situazione finanziaria che secondo me è molto buono: il modello Ocse, coordinamento nazionale. Questo testo purtroppo si è fermato perché mentre chi conosce il modello Ocse sa – e parliamo di una strategia che coordina tutti i soggetti in campo – che non entra in linea diretta con il sistema nazionale dell'istruzione, invece la Commissione Istituzione della Camera, anche d'accordo con la posizione del Senato, che aveva una analoga iniziativa, ha voluto inserire dentro il programma nazionale della financial education, anche come questo testo viene recepito all'interno dei programmi ordinari nazionale. Questo però ha creato una grande preoccupazione, devo dire legittima, da parte della Ragioneria Generale dello Stato, la quale ha bloccato tutto dicendo, "una cosa è il financial education modello Ocse, se dobbiamo creare, se si creano le condizioni di creare diecimila carte in più, quindi dovete farci vedere quanto costa". Però, dato che quindici giorni fa, come sapete il Ministro dell 'Economia Padoan, presentando il decreto sulla ricapitalizzazione delle banche al Senato, ha rilanciato il tema dell'educazione finanziaria, tra l'altro dicendo 'ringraziando il parlamento per questo progetto di legge' e poi si sta provando a mettere questa cosa come emendamento nel decreto che sta in Senato per la ricapitalizzazione delle banche, la cosa molto importante da dire per rispondere ai giusti punti richiesti, che si aggiunge un po', lo ho anche scritto il ministro, che da una introduzione dell'educazione finanziaria, del meccanismo di ricapitalizzazione finanziaria, e dal suo colloquio col sistema nazionale di educazione, non devono derivare modifiche alla struttura degli insegnamenti e all'elenco delle docenze: quindi lo si fa dentro le docenze esistenti. Naturalmente come tutti potete capire che siamo in giorni, anche in settimane di emergenza sotto tanti punti di vista, ovviamente, politico, dopo un referendum, nuovo governo, poi il terremoto, poi la procedura d'inflazione europea, io mi auguro e spero che l'operazione d'introdurre il progetto financial education con il decreto banche, funzioni perché se no in alternativa vedo molto difficile ormai con i mesi che ci restano approvarlo totalmente. Però siamo a buon punto. Volevo raccontarla una informazione.

1.2 Project stakeholder conference report, Hamburg, Germany (May 2017)

Reform of the Reform – ways to reduce poverty in old age and supplement retirement Incomes

A Report of the European Project Proceedings: towards informing national and European policy engagement

Hamburg, 11th May 2017

Editors: John Maher, Sebastien Clerc-Renaud, Doris Neuberger, Martina Eckardt

1.2.1 Executive Summary

In 2015, DG Employment and Social Affairs commissioned a research project to examine the potential for housing assets to augment retirement income in the European Union. This is against a backdrop of increased longevity, higher costs associated with pension provision, lower dependency rates, declining income replacement rates on retirement and fiscal pressures arising with respect to public pension provision. This conference held in May 2017 in Hamburg Germany provided a platform for presenting preliminary findings from research covering retirement provision, housing, demographics and policy options, primarily focusing on six countries in the EU. This two year research project is conducted by iff-Hamburg (lead partner), Waterford Institute of Technology, Queen's University

Belfast, University of Rostock, Technological University Delft, Andrássy University-Budapest and LUMSA-Rome.

The conference involved academics, advocates and practitioners familiar with the project domains and also included representatives of commercial firms with experience of the market in several countries. The presentations dealt with issues of market attractiveness, potential household appetite for solutions, suitable consumer protection, conceptual awareness among all stakeholders, product development, provision of capital, market evolution, and regulatory matters. Contrasting perspectives were offered and cultural preferences were highlighted with respect to the provision of housing (renting/owning), mobility (staying/moving), equity release (selling/leveraging), and inter-generational disposals (lifetime, on death, in full, partial, not at all). Participants recognised the changing nature of housing needs over a lifetime, the nature and location of housing within a community, the size of the available housing equity and the associated release mechanisms as complementary factors, all having significance in personal financial planning for retirement.

Building on the insights shared at this conference, the research partners next will engage with stakeholder in their respective countries and each will also conduct one further national consumer focus group. A synthesis report will then be prepared and submitted to the Commission. Following due consideration, it will be published and made available electronically to all stakeholders.

1.2.2 Panel Synopses

1.2.2.1 Panel 1: Theme: Real estate a good idea for old-age provision? Equity release schemes as a way out.

Speakers: Mr Ettore Marchetti (European Commission); Dr. Peter Hennecke (Univ. Rostock); Dr. Jörg Dötsch (Univ. Andrássy); Sebastien Clerc-Renaud (iff), Dr. Declan French (Queen's Univ. Belfast); Mr Friedrich Thiele (Dt. Leibrenten AG);

Moderation: Prof Dr Doris Neuberger (University of Rostock & iff-Hamburg)

This panel focused on the potential of Equity Release Schemes (ERS) to provide additional income in old-age. Ettore Marchetti (European Commission) started with a presentation of pension adequacy and need for private pensions in the EU. The latest Pension Adequacy Report from 2015 projected lower pensions, in spite of longer careers. Deep adequacy issues may develop in several countries and within certain groups of people, mainly women, the less-educated, and migrants. Although old-age poverty in the EU decreased, still 14% of people aged 65+ were at-risk-of-poverty in 2015. Pensions are key to reducing old-age poverty and ensuring that income is maintained after retirement. The share of pensions in household income is highest for elderly singles (mainly women). Due to an ageing population, public pension costs are rising. Whereas personal pensions are becoming more widespread, only a small fraction of the population is affiliated, and very few contribute substantial amounts. Saving for one's home remains by far the major way Europeans set aside for old age. Some ¾ of older Europeans own the home they live in and ownership is higher in poorer countries; however, within countries, poverty rates among older tenants are twice as high as among older people who own their dwelling. This means that the poor have fewer opportunities to increase their incomes using their properties. Nevertheless, there is some scope for reducing old-age poverty through schemes that allow turning one's home into income. In addition, for many middle-class people, reverse mortgages can help sustain income and consumption in old ages. There is risk, however, that supplementing state pensions with personal savings (pension, housing, including reverse mortgages) will increase old-age inequality. Moreover, we need to work towards making the schemes safe and affordable.

Sebastien Clerc-Renaud (iff) explained what an ERS is and how it differs from other ways of extracting equity, i.e. remortgaging and downsizing. These alternatives tend to be

associated with high social and possibly financial costs. According to iff, ERS must be a financial service, a source of liquidity for the future (lump sum or regular payments), contain a strong entitlement to remain in occupation of the property, and rely solely on the sale of the property for (re-)payment of the funds released to be used as a retirement pension. There are primarily two forms of ERS: the Loan Model ERS (reverse mortgage, lifetime mortgage) and the Sales Model ERS (home reversion). The loan model ERS enables homeowners to borrow money against the value of their property, without losing their ownership. In this form, the amount lent is recovered through the sale proceeds of the house. The sale model involves immediate selling of the house. Homeowners convert their house to cash by selling a part of or the entire property to the ERS provider, while retaining their rights to live in the house.

Peter Hennecke (University of Rostock) presented research he conducted with Pierluigi Murro, Doris Neuberger and Flaviana Palmisano on market conditions for ERS in the EU member states. They used statistical data to measure the growing need for additional old age income as a proxy for potential ERS demand and the feasibility of ERS based on the availability of debt-free houses and the development of the housing and mortgage markets as a proxy for potential ERS supply. The results show that there is considerable heterogeneity between EU member states. For instance, while a comparatively high need in Germany is not met by an equally high feasibility, the market conditions are more favourable in the Netherlands and the UK. In any case, ERS can only be part of the solution as they are only of interest to a rather small part of the population, i.e. the cash poor but house rich with no bequest motive. Unfortunately, for those in most need of additional income, i.e. low income households with subsequently even lower pensions, ERS is usually not applicable as these households generally do not possess high real estate equity that could be released.

Jörg Dötsch (Andrássy University Budapest) provided an overview of public policy options which affect people's decision to invest in private pensions and home ownership. The main fiscal incentives to increase private pension savings result from how taxation relates (1) to contributions to such schemes, (2) to the returns on investment and the accumulated funds and (3) to the benefits from these pension plans. In addition, personal pension schemes might also be (4) subject to social security contributions. Finally, (5) subsidies might be available to incentivize contribution in private pension savings. Furthermore there are wide ranging state interventions on the closely interconnected housing and mortgage markets as e.g. subsidization of the acquisition of new homes. There is an extremely wide variety of policy interventions across Europe. Regarding private pension schemes, for the six countries covered by the research project, there is quite a lot of variation in regard to tax treatment, with no two countries applying the same overall design. Housing policies among the six member states vary with respect to the importance attached to it by policy-makers, the division of responsibilities, and the focus on social problems. Overall, regarding design and use of policy instruments, member states cannot be compiled into homogeneous groups. One may condense – at the most – two groups: countries using policies that actively stimulate the mortgage markets and countries relying on rather conservative policies.

Due to these differences in both market conditions and policy frameworks, also the use of ERS differs considerably across EU member states. As an example of a developed ERS market, Declan French (Queen's University Belfast) presented the UK case. The equity release market in UK being dominated by the loan model (lifetime mortgages), is one of the most developed ones across Europe. Homeowners demand such products primarily to finance home or garden improvements (63%), followed by to pay debts (31%) and go on holidays (29%). Only 13% of customers need the funds to help with regular bills. However, the mandatory 'No Negative Equity Guarantee' reduces the loan-to-value ratio or the liquidity released. There is a need for better coordination across government with regards to policies on equity release. To ensure that those implementing policy changes have considered the impact on equity release, government and consumers, it is important for a department of the government to take a leading role in this area. Policymakers will have

better insight on the use of equity release in fulfilling policy aims such as increasing retirement income or paying for social care if more efforts are spent on understanding the sector. Not many people in UK understand equity release completely or are aware of this financial product. Equity release schemes can become a regular source of income for people in retirement if there is more transparency about the mechanisms and tax implications of taking out ERS.

Finally, Friedrich Thiele (Deutsche Leibrenten AG) presented the German case as an example of a less developed ERS market. As provider of home reversion products, which dominate the small ERS market in Germany, he stressed the advantages of the Sales Model over the Loan Model ERS. First, a home reversion product completely covers the beneficiary for the economic risk of a prolonged lifespan, while in the case of a reverse mortgage this risk is not covered without additional insurance products. Therefore, the provision of lifetime mortgages is not attractive for banks. Secondly, since the beneficiary of a home reversion product is acting as the seller of the asset, there are no additional costs driving down the value of the annuity, which arise from uncertainty about the future property value faced by a reverse mortgage provider. In the early days of the last century, home reversion products in Germany were often used only in rural regions, when family-owned farms were passed on to the next generation or by selling the property to the church. Deutsche Leibrenten Grundbesitz AG, a real estate stock corporation, offers an institutional solution. As a first nationwide home reversion plan provider it uses the potential of widely diversified real estate portfolios.

Following this, the profitability and risks of the sale model were discussed. Since the Deutsche Leibrenten AG is owned by venture capital funds, their requirements on return on equity, which covers the customers' longevity risk, have to be met. Consumers have to be protected against the providers' default risk and the risk of living shorter than expected.

1.2.2.2 Panel 2: Theme: Equity Release – A tale of Five Countries, role models for a safe old age provision

Speakers: Dr. Carmen Friedrich (Chemnitz University of Technology), Dr. Joris Hoekstra (Delft University of Technology), Mr John Maher (Waterford Institute of Technology), Prof. Pierluigi Murro (LUMSA University of Rome), Mr Nigel Waterson (Equity Release Council)

Moderation: Prof. Dr. Martina Eckardt (Andrássy University Budapest)

The focus of this panel was on consumer attractiveness and demand for Equity Release Schemes (ERS) as well as on consumer protection. ERS are very complex financial products which demand a rather high standard of financial literacy from consumers. In this panel Joris Hoekstra (Delft University of Technology, Netherlands) presented the main findings regarding attitudes to homeownership and ERS as a way of equity extraction. These are based on 12 focus group interviews with consumers from six EU member states (Germany, the United Kingdom, Italy, The Netherlands, Hungary and Ireland) carried out by the researchers of the project 'Integrating Residential Property with Private Pensions'. The findings of these focus groups obviously differ between the various national contexts. Nevertheless, four main trends could be discerned. (1) growing awareness of the potential of, and the need for, releasing housing equity; (2) strategies to release housing equity are context-dependent; (3) the personal situation determines if, when and how much housing equity is released; (4) there is a need for more transparent and objective information on ERS.

Following this, safeguards and safety features from a consumer protection point of view were discussed. These were illustrated by reference to the experiences with consumer protection provisions in place in different EU member states, thus accounting for the differences in the market for ERS schemes as well as for differences in consumer protection in EU member states.

John Maher (Waterford Institute of Technology, Ireland) outlined the main differences between Loan and Sale Model ERS from a demand side perspective. Loan Model ERS, which are prevalent in Ireland, involves an individual or couple drawing down a loan which is secured on the property until the demise of one or both owners, typically after between 15 and 20 years. By retaining ownership, a consumer continues to enjoy a psychological benefit, not felt to the same extent under the Sale Model ERS. That involves ownership passing at the outset of the contract to a financial institution. The amount obtained by the consumer is principally a function of interest rates, the occupants' age and health, and the determinants of the value of the property (condition, quality of title and location, etc.). Consumers in Ireland must be supplied with financial services which meet their needs and are suitable for their circumstances. Since 2008, ERS products have been brought under the Central Bank's Consumer Protection Code and consumers must be advised of the consequences of equity release products and of the total costs including interest. Suppliers must make their clients aware of the importance of taking independent legal advice and explicitly warn the customers that there may be a negative impact on funding future needs. Issues which could give rise to consumer tension include family members receiving diminished bequests, interest roll up not being properly understood and the possibility of negative equity giving rise to a claim against other assets on death.

Pierluigi Murro (LUMSA University of Rome, Italy) explained that in Italy only one type of a Loan Model ERS is currently available. Providers are banks, credit institutions or financial institutions under the supervision of the Italian Banking Law. A recently introduced law in Italy about ERS, which resulted from joint cooperation of the Association of Italian Banks and Consumer Associations, includes the following regulations: prospectus of the maturation of interests, co-header of house for the spouse, period of reflection for heirs, agreement at the time of sale of the house, etc. What is still lacking is the right of ERS consumers to smooth the bank payment during their life, if necessary. In addition Consumer Associations in Italy stress the importance of financial education for the diffusion of these products and for consumer protection. This seems the more important as recent surveys document that in Italy levels of financial culture are among the lowest reported in the advanced economies both for adults and students.

Although the market is very small with only a few number of providers active, in Germany Sales Model ERS products are the preferred ERS as Carmen Friedrich (Chemnitz University of Technology, Germany) showed. The underlying legal arrangements are based on well-established rules of the German private law, like life annuity and charge on real property including life estate (Leibrente/Reallast mit Wohnrecht) and usufruct (Nießbrauch) and charge on real property (Reallast) which are combined. Neither banks nor insurance companies are in this market, which is dominated by private stock companies or foundations. These are not subject to special regulations or supervision by the German financial authorities, like the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). According to Dr. Friedrich, lack of transparency and safeguards in regard to payment default and insolvency of the provider are the main problems from a consumer protection point of view.

Finally, Nigel Waterson (Equity Release Council, UK) presented the evolution of ERS consumer protection in the UK, where there is the best developed ERS market so far in the EU. In contrast to Germany, the main focus there is on Loan Model ERS. In the UK, the guarantee of non-negative equity in Loan Model ERS is a most important feature of the product design to mitigate consumers' risks. However, this benefit comes at the cost that only a rather small amount of the value of a property can be retrieved in this way, making it not suited for providing a larger share of old-age income. Following some misselling scandals in the 1980s and 1990s, consumer protection regarding ERS has been substantially reformed in the UK. The Equity Release Council is a voluntary provider association, organizing most of the British ERS providers. It requires its members to adhere to additional product standards for selling ERS products, making sure consumers which are usually 55+ of age really do understand the complex products. In addition,

before contract conclusion, advice by an independent financial adviser who is certificated for ERS products must be given.

Following a lively discussion, this panel showed that ERS are very complex financial products, with consumers in different member states preferring different types of ERS. In addition, financial consumer protection provisions not only differ significantly between the member states, but are of high complexity even within single member states. Following from this the following conclusions can be drawn:

- For ERS products to become more widespread, **providers have to develop innovative ERS products** which are much better comprehensible for the target group of older consumers.
- To increase consumer awareness, much **more public initiative is necessary to substantially increase financial literacy**, in particular tailored to the needs of elderly people.
- In the near future **neither a single market of ERS products** in the EU might arise **nor will substantial cross-border business** take place given the diversity of consumer preferences for ERS products and of consumer protection mechanisms in the EU member states.

1.2.2.3 Panel 3: Theme: Equity release schemes: characteristics of a good product?

Speakers: Prof. Donal McKillop (Queen's Univ. Belfast); Prof. Udo Reifner (iff); Mr Lennart Grabe (Hypotekspension Sweden); Mr John Moriarty (Seniors Money Ireland)

Moderation: Mr John Maher (Waterford Institute of Technology)

This panel dealt with the market structures and products and which currently exist or could be offered prospectively as a policy support to the goal of securing additional retirement income for individuals and households. Because household financial planning exists within a lifecycle that for many includes periods of family formation, employment or self-employment, raising children who later leave the family home, retirement and perhaps periods of social care, it is necessary to consider the affordability of different forms of housing and pension provision over that lifecycle. At present equity release schemes involve treating of households who have already accumulated equity in their homes who wish to release cash. A further cohort of the population consists of those individuals and households who have not commenced the process of pension provision nor committed themselves to the purchase of a home. This population segment might be served well by financial solutions which would afford them the possibility of providing both housing and a retirement income savings vehicle over their lifecycle.

John Maher (WIT) indicated that the search for solutions meant striking a balance between the mix of benefits sought by consumers, the returns sought by financial providers, the safety and soundness of the market sought by regulators and the socioeconomic policy goals sought by governments individually, and collectively through the European Union. Security of tenure in all cases is a fundamental benefit that consumers require.

He observed that due regard must be had to cultural factors as these represent strong forces regarding household purchasing behaviour of both housing and pensions. In order for suppliers to become involved in the market, there needs to be a level of latent demand and satisfying it should be economically feasible by (i) being affordable by customers, (ii) on a scale worthy of policy intervention and supplier engagement and (iii) capable of attracting capital. The State plays a role through a range of interventions including tax relief and other subsidies of payments made by individuals and households when paying for housing and saving for retirement and obtaining financial returns on such savings.

He also outlined a possible solution for individuals engaged in household formation typically in the 25-35 age cohort that would see them obtain a lifetime right to occupancy of a property while also contributing to an individual pension. This would represent a bundled product offering, and the payment to the supplying financial service provider

would involve both rent and pension contributions. Rent levels would be lower than short term rentals based on the elimination of vacant periods, improved maintenance and more assured income levels associated with long term occupancy. Such a product would be attractive for individuals and households who otherwise have to forfeit the possibility of pension savings due to the high cost of property relative to modal incomes in society and the impact of macro-prudential considerations with respect to mortgage lending. From a supplier perspective, this offering would involve significant capital funding for example compatible with a pooled or collective investment governed by a residential property asset mandate.

Donal McKillop (QUB) reviewed the growth in equity release in the UK market as indicated, volume, number of suppliers and number of products. He examined the motives and choices households have in obtaining cash from residential property equity and the factors reported as influencing their decisions. He discussed two possible solutions that could contribute to retirement income provision linked to residential property. The first involves tax relief on housing acquisition being provided by way a contribution to a pension. This offering would also be aimed at the population segment which is buying residential property as part of the household formation process.

The second involves linking the loan liability on an equity release product to a regional house price index, thereby obtaining a desired *no negative equity* outcome. This option deploys a derivative contract and takes into account the regional nature of house price movements evident in residential property markets in the UK and elsewhere. This solution could mirror the higher level of equity release that is obtained in US markets and thus have the effect of altering the value proposition for consumers insofar as a more material enhancement of retirement income would be possible. There exists in the market a minimum equity release advance which suppliers believe is necessary to justify the costs and provide an adequate return. A higher proportionate release in turn could increase the number of properties across the valuation spectrum to which equity release might be applied.

Udo Reifner (iff-Hamburg) examined more a creative approach to obtaining the use of property assets through a collective ownership structure. This would allow an accordion like approach to expanding and contracting ownership through a unitised approach to the residential property assets. He questioned the policy emphasis placed on the outright ownership which exists in some countries, highlighting the empirical evidence offered by others such as Germany and Switzerland where household rental is a widespread phenomenon, and does not serve as an obstacle to prosperity and social cohesion.

It was acknowledged that mortgage credit does fill the role of inter temporal consumption transformation. However this possibility is not accessible to some medium and lower income groups as they cannot buy property using conventional mortgage finance. Thus a gap exists which policy development could address through reimagining the possibilities for retirement income and housing supply while retaining the intergenerational transmission that conventional ownership and inheritance offers.

John Moriarty (Seniors Money) reflected on experience obtained from over a decade of trading activity in equity release markets in Ireland Spain, New Zealand and Australia. Demand exists, particularly with a growing, ageing, and property owning population segment. In recent years, the supply of capital has shifted from bank and securitised sources to insurance providers who can match a long term investment with long term liabilities. Effective matching does depend also on a suitable prudential framework such as that which has evolved in the UK. There, market development has been facilitated by such treatment. A similar coordinated approach in Europe could contribute to market progression. The US policy approach to public assistance in mitigating negative equity risk has also proved beneficial and is worth examination, and perhaps replication. Overall market conditions are now seen as more favourable than any time since the financial crisis and renewed trading activity should follow as a result.

Lennart Grabe (Svenskhypotekspension AB) spoke about the development of the equity release concept in the Swedish market with initial offerings being guided by the SHIP framework originating in the UK. Consumer dissatisfaction with this basic model transpired. Now his company offers a product very much based on a UK equivalent with similar protections offered to customers as are provided by the UK Equity release standards and guidelines. Conceptually he views equity release essentially as an agreement to share the proceeds of a residence in return for a release either of a lump sum or a periodic payment. A no negative equity guarantee was viewed as a *sine qua non* of such a product offering.

Viewing equity release in terms of a conventional mortgage is damaging to suppliers as it distorts capital requirements, suggests a need for asset amortization, and triggers otherwise inapplicable borrowing considerations.

In the subsequent discussion, attendees encouraged the Panel to continue their work in examining proposals and expressed appreciation for the possibilities now presented. They supported the dialogue between participants coming from different discipline and different jurisdictions. In order to inform the empirical and conceptual dimensions of the project, the attendees were invited to communicate further reflections and observations to the research consortium, either to iff-Hamburg or to other consortium members.

1.2.3 Panel outlines and speaker written contributions (submitted for the conference reader for participants)

1.2.3.1 Panel 1: Theme: Is real estate a good idea for old age provision? Equity Release schemes as a way out.

Thursday, 11 May 2017, 11:30-13:00h

Speakers: Mr Ettore Marchetti (European Commission); Dr. Peter Hennecke (Univ. Rostock); Dr. Jörg Dötsch (Univ. Andrássy); Sebastien Clerc-Renaud (iff), Dr. Declan French (Queen's Univ. Belfast); Mr Friedrich Thiele (Dt. Leibrenten AG); Moderator: Prof Doris Neuberger (University of Rostock and iff-Hamburg)

1.2.3.1.1 Outline

Demographic change and the growing problems of traditional old-age security systems have increased the need for additional private savings for old-age. However, this might be in conflict with private savings for homeownership. One way of mitigating this potential conflict could be to release the liquidity of the wealth incorporated in one's housing assets during old-age by so-called Equity Release Schemes (ERS). A homeowner may thus access the wealth accumulated in the form of his or her home, while being able to continue to live in it.

In this panel, we will aim to cover the potential of such products to provide additional income in old-age. We will start with a presentation of the EU pension adequacy and need for private pensions and an overview of ERS need and feasibility in different EU Member States. After a short overview of public policy options for private pensions and homeownership, and of what ERS is, we will look at the existing ERS markets in the EU. The UK case will be presented as an example of a developed ERS market, and the German case as an example of a less developed one.

The workshop will seek to answer the following questions:

- Do the EU pension systems provide adequate security for old age?
- What are the conditions for ERS in the EU Member States, measured by the need for complementary private pensions provided by ERS, and the feasibility of ERS given the current market situation?

- What are the public policy options which affect people's decision to invest in private pensions and home ownership?
- What is an ERS and how does it differ from other ways of extracting equity?
- How large are the existing ERS markets in the EU?
- What are the main features of the ERS markets in the UK and Germany and how do these differ?

1.2.3.1.2 Abstract: Dr Peter Hennecke, University of Rostock

The pension systems of EU member states are under increasing demographic pressure. Later retirements ages and lower replacement rates are inevitable to prevent (pay-as-you-go) pension systems from collapsing. Thus, the need to acquire additional old age income is high. Equity Release Schemes (ERS) might contribute to close the widening pension gap. ERS transform illiquid assets in the form of owner-occupied homes into liquid assets such as a lump sum payment or a regular income stream. The advantage of ERS in comparison to other ways of accessing the value of one's home, e.g. selling and moving out, is that it allows residents to stay in their home and area. Peter Hennecke presents research he conducted with Pierluigi Murro, Doris Neuberger and Flaviana Palmisano on market conditions for ERS in the EU member states. They used statistical data to measure the growing need for additional old age income as a proxy for potential ERS demand and the feasibility of ERS based on the availability of debt-free houses and the development of the housing and mortgage markets as a proxy for potential ERS supply. Their research shows that there is considerable heterogeneity between EU member states. For instance, while a comparatively high need in Germany is not met by an equally high feasibility, the market conditions are more favourable in the Netherlands and the UK. In any case, ERS can only be part of the solution as they are only of interest to a rather small part of the population, i.e. the cash poor but house rich with no bequest motive. Unfortunately, for those in most need of additional income, i.e. low income households with subsequently even lower pensions, ERS is usually not applicable as these households generally do not possess high real estate equity that could be released.

1.2.3.1.3 Abstract: Dr Jörg Dötsch, Andrássy University Budapest

What are the public policy options (fiscal incentives etc.) which affect people's decision to invest in private pensions and home ownership?

A decisive starting point of people's decision to invest in private pensions and home ownership is first and foremost the pension system, which differ considerably. Recently voluntary personal pension schemes play only a rather minor role in regard to coverage, which should be below 10% for most EU member states.

The main fiscal incentives to increase private pension savings result from how taxation relates (1) to contributions to such schemes, (2) to the returns on investment and the accumulated funds and (3) to the benefits from these pension plans. In addition, personal pension schemes might also be (4) subject to social security contributions. Finally, (5) subsidies might be available to incentivize contribution in private pension savings.

Furthermore there are wide ranging state interventions on the closely interconnected housing and mortgage markets as e.g. subsidization the acquisition of new homes or for renovating and enlarging private property or for adopting energy-efficient construction. There are different "Bauspar" schemes, subsidized mortgages, tax advantages for mortgage holders or, as in Germany, subsidies for personal "Riester pensions". Some states foster investment in private pensions and home ownership by providing financial advice or assistance and expanding forms of consumer protection by e.g. mortgage rescue schemes.

What are the key differences and similarities of these policies across EU member states (with focus on Germany, Hungary, Ireland, Italy, Netherlands, UK)?

There is an extremely wide variety of policy interventions across Europe. Regarding *private pension schemes*, for the six countries covered by the research project, there is quite a lot of variation in regard to tax treatment, with no two countries applying the same overall design. *Housing policies* among the six member states vary with respect to the importance attached to it by policy-makers, the division of responsibilities, and the focus on social problems.

Tax exemptions on housing-related investment or subsidies for housing-related activities vary. Overall, the countries covered pursue different aims, follow different traditions and apply different instruments and reveal more differences than similarities. A common reference point is the turbulent years of 2007/2008 which entailed similar macro-prudential measures such as bands for LTV ratios to lower the risk of mortgage lending. In almost every country there is a tightening of the regulation of mortgage lending. There are considerable differences between developed and dynamic mortgage markets on the one side, and more 'conservative' and less dynamic mortgage markets on the other side. Overall, regarding design and use of policy instruments, member states cannot be compiled into homogeneous groups. One may condense – at the most – two groups: countries using policies that actively stimulate the mortgage markets and countries relying on rather conservative policies.

1.2.3.1.4 Abstract: Mr Ettore Marchetti, DG Employment & Social Affairs, European Commission

The Ageing Report (2015) illustrates that recent pension reforms stabilised pension expenditure in the next decades. This financial stability was achieved through reducing coverage and benefits and increasing labour participation. The Pension Adequacy Report also monitors pension adequacy. The latest, also from 2015, projected lower pensions, in spite of longer careers. Moreover, there deep adequacy issues may develop in several countries and within certain groups of people, women, the less-educated, migrants.

The European Commission's objectives are

1. Reduce old-age poverty
2. Ensure that income is maintained after retirement

Pensions are key to both objectives. Although incomes drop after retirement, poverty decreases, thanks to pension's progressive nature that ensures lower inequality than among working-age people.

In addition to ageing, people are becoming more mobile. As young Europeans become more mobile, they may opt more easily for "portable" types of savings, such as personal pensions. The European Commission is also working towards making such pensions more secure and portable across countries. Self-employed people and workers on non-standard contracts would also need to develop supplementary pension savings. The European Commission is also working on extending social protection to all workers, with an eye to granting sickness and unemployment benefits and access to labour market measures, but also, in the longer term, pensions.

Now, whereas personal pensions are becoming more widespread, only a small fraction of the population is affiliated and very few contribute substantial amounts. Saving for one's home remains by far the major way Europeans set aside for old age.

The ECB households' finances and consumption survey revealed that a large proportion of people's net wealth is in property and often much of it is one's home. Some ¾ of older Europeans own the home they live in and ownership is higher in poorer countries; however, within countries, poverty rates among older tenants are twice as high as among older people who own their dwelling. This means that the poor have fewer opportunities

to increase their incomes using their properties. Nevertheless, there is some scope for reducing old-age poverty through schemes that allow turning one's home into income. In addition, for many middle-class people, reverse–mortgages can help sustain income and consumption in old ages.

There is risk, however, that supplementing state pensions with personal savings (pension, housing, including reverse mortgages) will increase old-age inequality. Moreover, we need to work towards making the schemes safe and affordable. All this, while pursuing our main policy goal of extending working lives to afford adequate statutory pensions for all.

1.2.3.1.5 Abstract: Dr Declan French, Queens University Belfast

Recent reforms to pensions have been motivated by a perception that current levels of pension saving are inadequate due to increased longevity and public expectations about living standards in retirement. Additionally, the UK government desires to reduce budget deficits. This has motivated the introduction of auto-enrolment of employees into occupational schemes or group personal pensions thereby increasing the numbers of those saving for retirement. Reforms to the level of the state pension from April 2016 are intended to reduce inequalities as well as to simplify the current complex means-tested system thus facilitating pension planning. However, commentators argue that most retirees with the exception of the low-paid and the self-employed will be worse off as a result.

Future legislation is likely to reduce tax reliefs enjoyed by higher rate taxpayers. Such a change would make accumulating pension wealth through housing more attractive at least for these individuals as the fiscal treatment of pensions would then be similar to the fiscal treatment of housing equity i.e. 'Taxed-exempt-taxed'.

High UK house prices (particularly in South East) and the high level of homeownership are conducive to the development of the ERS market. First-time buyers are finding it more difficult to get on to the property ladder but homeownership is still an aspiration for the majority of people. Government policy has focused on increasing demand but has done little to address planning restrictions on housing supply. Homeownership levels are thus expected to continue to decline. Any reduction in Stamp duty, Capital Gains Tax or Inheritance Tax would make saving for retirement by means of housing more attractive.

The equity release market in UK is one of the most developed ones across Europe. Equity release has great potential to take care of people's need in retirement. There is a need for better coordination across government with regards to policies on equity release. To ensure that those implementing policy changes have considered the impact on equity release, government and consumers, it is important for a department of the government to take a leading role in this area. Policymakers will have better insight on the use of equity release in fulfilling policy aims such as increasing retirement income or paying for social care if more efforts are spent on understanding the sector.

Not many people in UK understand equity release completely or are aware of this financial product. Equity release schemes can become a regular source of income for people in retirement if there is more transparency about the mechanisms and tax implications of taking out ERS.

1.2.3.1.6 Abstract: Mr Friedrich Thiele, Dt Leibrenten AG

When people discuss the proper measures for providing for their retirement years, it is well known that state pension schemes alone can no longer finance one's old-age requirements. In the end, the general public knows that private provisions are a must, in addition to state pension schemes. People are aware of this, whether or not they can actually finance such additional provisions with their private incomes. It is accepted both politically and socially, that for this additional provision, owner-occupied residential property is outstandingly suitable. Currently in Germany, significantly more than fifty percent of the population above the age of sixty-five owns residential real estate. Many

retirees, however, are finding that their residential properties alone cannot close the gap between their inadequate state pension schemes and their daily cost-of-living expenses, even though they do not have to pay any cold rent costs. The reasons for this funding gap are, on the one hand, that the mortgage for the property did not leave any breathing room for building further liquid assets, such as life insurance or bond funds; and, on the other hand, that the property has very likely "aged", as well, and might, therefore, require some repair and/or renovation investment, meaning that the asset's recoverability cannot always be taken for granted. A third reason is that people often underestimate the cost of their old age needs. Aside from maintaining their accustomed standard of living, there are, inevitably, expenses for nursing services, property maintenance services, and/or senior-friendly property modifications. Most property owners must bear these additional financial burdens on their own, because social benefits are not granted until the property assets are depleted. Therefore, for residential property owners, equity release products provide these owners their only chance to continue living in their familiar environment, as well as providing them with a comfortable economic status in their golden years. These equity release products also satisfy the issue of the owners' social relationships, as ninety-eight percent of residential property owners don't want to relocate in their later years, but prefer, instead, to continue living in their usual autonomous fashion, within their own residential properties.

In such cases, a home reversion product has some major advantages over a reverse mortgage. First and foremost, it completely covers the beneficiary for the economic risk of a prolonged lifespan. Secondly, the entire property asset is at the beneficiary's disposal, and since the beneficiary is acting as the seller of the asset, there are no additional negative costs driving down the value of the annuity. A reverse mortgage, on the other hand, has some significant disadvantages. A pension is based only on a low hypothecated value, and the risk of a longer-than-expected lifespan is not covered without additional products, such as payments into bond funds or life insurance in cases of early redemption. And a reverse mortgage is on the other hand simply a non-performing loan for the financing bank.

Now is the perfect time, therefore, to rediscover the German home reversion. In the early days of the last century, home reversions in Germany were often used only in rural regions, when family-owned farms were passed on to the next generation or by selling the property to the church. But there was never an institutional corporation using, as a real estate company, the potential of home reversion for retirement provisions, setting up interesting and widely diversified real estate portfolios. Deutsche Leibrenten Grundbesitz AG wants to open this market as "*first mover*". Close attention by politics and science to the home reversion´s potential for retirement financing will lead to higher transparency and acceptance of the product and to its developing its own market. An owner-occupied residential property can offer so much more than just "rent-free" living.

1.2.3.2 Panel 2: Theme: Equity Release: A tale of five countries, role models for a safe old age-provision

Thursday, 11 May 2017, 14:00-15:30

Speakers: Dr. Carmen Friedrich (Chemnitz University of Technology), Dr. Joris Hoekstra (Delft University of Technology), Mr John Maher (Waterford Institute of Technology), Prof. Pierluigi Murro (LUMSA University of Rome), Mr Nigel Waterson (Equity Release Council); Moderator: Prof Dr Martina Eckhardt, (Andrássy University, Budapest).

1.2.3.2.1 Outline

Aim & Structure

Panel D1.1 of the iff conference discusses the potential of Equity Release Schemes as an additional means to provide income in old-age by releasing illiquid wealth from home-

ownership. That panel presents and discusses the current state of Equity Release Schemes.

In this panel, the focus is on consumer attractiveness and demand for Equity Release Schemes (ERS) as well as on consumer protection. ERS are very complex financial products which demand a rather high standard of financial literacy from consumers. In this panel we present the main findings regarding attitudes to homeownership and ERS as a way of equity extraction based on 12 focus group interviews with consumers from six EU member states. Next, the main differences between Sale and Loan Model ERS are outlined from a demand side perspective, before we turn to safeguards and safety features from a consumer protection point of view. This will be illustrated by reference to the experiences with consumer protection provisions in place in the United Kingdom, Italy and Germany.

Questions

The workshop will seek to answer the following questions by looking at experiences in different EU member states:

- Is releasing equity from home ownership an attractive means for additional old-age income for the elderly?
- What are consumers' perceptions of ERS models?
- What are the main features of Loan and Sales Model ERS that are most relevant from a consumer's point of view?
- What are the prevalent consumer protection regulations in place for ERS?
- What are the experiences with consumer protection in place regarding ERS?
- Are additional regulations for ERS necessary? If so, what form should they take?
- Do different types of consumers need different types of protection?
- Do different types of ERS providers (banks vs. insurance companies, for example) pose different challenges from a consumer protection point of view?
- What kind of consumer protection mechanism is best for ensuring trust in ERS?
- What role can consumer associations play in this respect? What advantage(s) might trade association have?

1.2.3.2.2 Abstract: Mr John Maher, Waterford Institute of Technology

In Ireland, aspirations relating to residential property have deep roots with individuals and families seeking to acquire and own their own homes during their working lives. However, with the collapse in the supply of new homes since 2009, considerable growth occurred in the private rental sector. In addition, the emergence of a sizeable mortgage arrears problem in the economic downturn led to reduced mortgage lending. This was coupled with the State largely exiting from the provision of new social housing due to budgetary constraints. More recently, house prices have recovered from the nadir experienced in 2009 and the negative equity experienced by some mortgage holders is steadily being mitigated. In addition, those who own their properties without any outstanding debt are once again being sensitised regarding the extraction of capital or income from their homes to augment their incomes. This situation exists in parallel to the pensions' scenario where less than half private sector workers have any private pension other than the *de minimis* amount provided by State social security. Thus many young adults which comprise the largest new household formation cohort face critical choices regarding paying for housing in the immediate future and making some provision for retirement. Early pension savings can benefit from compound returns over their working lives.

From a consumer perspective therefore, the opportunity for developing solutions which might offer acceptable outcomes for young and old exists. These would involve striking a balance between the elements which influence household resource allocation such as costs, tax treatment, value provided, risk, sustainability, housing tenure, and flexibility in changing circumstances. Meanwhile financial institutions and associated intermediaries

can respond to market demand where acceptable returns can be obtained on capital, the new business acquisition costs and servicing costs are predictable and affordable within a pricing structure that would deliver growing sales volumes. Strategic considerations also influence such firms in terms of market positioning, fit with organisational mission, compatibility with core competences and expertise, and contribution to the overall product portfolio. Lastly, State authorities can use fiscal policy to provide signals to the consumers and financial institutions regarding public preferences for initiatives in pension and housing markets. Policy can frame new incentives or restructure existing ones to stimulate effective use of finance by parties on the demand and supply side of these markets.

The current research project led by iff-Hamburg and involving researchers in Germany, UK, Italy, Netherland Hungary and Ireland represents an exploration of the financial, social, structural and behavioural space within which the design of such policy solutions can be undertaken.

1.2.3.2.3 Abstract: Dr Carmen Friedrich (TU Chemnitz)

Discussion of the following ideas.

"In the foreseeable future, there is hardly any potential for the German market for equity release. There is a need for more potential security". In the first quarter of 2017 the current poverty and wealth report of the Federal Government was published. According to this, the poverty rate in 2015 is 15.7 percent. Poverty is particularly hard hit by pensioners. Here, the poverty rate rose by 49 percent between 2005 and 2015. The President of the Federation of National Solidarity in the relevant press conference predicts that: *"If we do nothing, the pension will have lost more than a fifth of its value by 2045!* The fact that the reforms so far, such as the Riester pension or the raising of the retirement age to 67, have flopped, is obvious. No one makes private pension provision. The second and third pillars of old-age insurance therefore are hardly relevant."

Against this background, the question arises, whether the financial situation in old age can be improved by real estate capital release for consumption, at least for the property owning segment of the population. According to the report on poverty and wealth, about 50 percent of private households owned residential property continuously since 2010. For more than 10 years, this supposedly great potential has been the target of credit institutions, insurance companies and private sector companies to place products for real estate consumption. The development on the market shows, however, that over six banks and insurance companies have now ceased their business and only around 10 product providers are currently active on the market.

The active providers generally provide two kinds of products to people own their homes: the first is so-called reverse mortgage. In these cases, the owner of the property obtains a real-estate loan. The interest is deferred and the entire residual debt is, in principle, repaid with the sale of the property at the end of the contract. In the case of the second type of product, the "sales model", the property is transferred to a third party at the beginning of the contractual relationship, and the right to reside, the payments for more liquidity and other benefits for the former owner are secured on the title of the property.

The target group for these products are in particular retirees. In the last ten years and even today, this group consists of people born at the end of the Second World War or belonging to the first post-war generation. They are characterized by a particular economic orientation. They feel a desire epitomised as follows: "*Our children and grandchildren should obtain a better life"* and this affects their behaviour. They consider that the hard-earned property should be neither to be burdened by debt nor "*consumed*" and that "*No debts are to be passed on to the next generation.*" According to the author, this is the main reason for the fact that, in particular, the Reverse Mortgage portfolio has not yet caught on in the market as perhaps hoped. Only with a generation change does a change appear possible here.

This is different with products of the "sales model". Germany has tried and tested instruments that are well suited to "sales models": usufruct, lifelong property rights, real lasts secured as collateral, or claim to care for the elderly. These instruments are used to this day, especially in the countryside. For example, farms are overwritten on their own children, and the parents ensure their livelihood through usufruct, housing rights and a service charge on property. In the cities, for example, in patchwork families as well as in the management of inheritances, properties of the self-employed are increasingly being transferred to children and/or other heirs during the original owner's lifetime and are burdened with the above-mentioned obligations.

A potential market segment for the consumption of real estate other than by family transmission consists of those people who do not wish to leave an inheritance to their heirs or have no heirs. For this target group, the author contends that there would be demand for products which not only guarantee lifelong living, regular payments and the maintenance of the property by third parties but also, in particular, the possibility to be provided in a senior or nursing home if necessary. "Sales models" with or without additional services are offered, among other things, by private corporations and foundations. As a matter of principle, these products also raise the question of price and performance ratios for consumers as well as sufficient and transparent information to compare products on the market. The suppliers of these products are not subject to approval or supervision by BaFin (the German Financial Regulator). This is why the answer to the question of consumer protection is at least as important as the level of demand.

1.2.3.2.4 Abstract: Dr Joris Hoekstra Delft (University of Technology, Delft)

In order to get a better insight into the attitudes and preferences of consumers towards releasing housing equity, the researchers of the project 'Integrating Residential Property with Private Pensions' have carried out focus groups in six EU-countries: Germany, the United Kingdom, Italy, The Netherlands, Hungary and Ireland. The findings of these focus groups obviously differ between the various national contexts. Nevertheless, the following four main trends can be discerned.

1) Growing awareness of the potential of, and the need for, releasing housing equity

At many places in Europe, pension incomes are decreasing and care systems are getting less inclusive. As a result of this, more and more older people have problems to make ends meet. In these circumstances, releasing housing equity is increasingly seen as a viable option to increase the retirement income.

2) Strategies to release housing equity are context-dependent

Older home owners can extract their housing equity in various ways: selling the house and moving to a smaller home ownership dwelling, selling and moving to a rental dwelling, letting out part of the dwelling, engaging in a sale-and-lease back construction or using a so-called equity release scheme (e.g. a reversed mortgage). The option that is preferred largely depends on the context: the housing market situation, the attachment to the current home, the quality of the current home, the health situation and the availability of suitable financial products.

3) The personal situation determines if, when and how much housing equity is released

In addition to the contextual factors mentioned above, the personal situation of the older home owning household determines to a large extent if, when and to what extent this household is interested in releasing housing equity. For example, many older home owners do not want to extract all their housing equity. They want to keep a buffer in order to remain financially independent of their family and the state's safety net. In a similar vein, some older home owners with children want to pass on (some of) their housing equity to their children after they have died, thus limiting the extent of housing equity that can be released. Finally, there are older home owner that want to release housing equity in order

to be able to help their children settling down and acquiring a home ownership dwelling (advanced inheritance). .

4) There is a need for more transparent and objective information on ERS

Older home owners generally don't have a good overview of the Equity Release Schemes (ERS) that are on offer on the market. The available products are seen as complicated, not very transparent and offering insufficient value for money. This is related to the fact that the providers of financial products are often not trusted. According to the consumers, a better government regulation of the ERS market is required. Moreover, there is a need for more objective and transparent information on ERS.

1.2.3.2.5 Abstract: Prof. Pierluigi Murro, (LUMSA, Rome)

Only one type of ERS is currently available in Italy: the presitito vitalizio ipotecario, which is qualified as a Loan Model. This product is a lifetime mortgages, a financing secured by mortgage of residential property that enables the owner to convert into liquidity part of the economic value of the property. It is structured as a medium or long loan contract between individuals aged 60 or older and banks, credit institutions or financial institutions under the supervision of the Italian Banking Law secured by first rank mortgage on residential property. According to this financial product, credit can be granted with annual capitalization of interests and costs, and reimbursement in a lump sum at the end of the contract. As such, this financial product is regulated by legislation (See Law of 2nd Dec. 2005, no. 248; Law of 2nd Apr. 2015, no. 44). The subscriber will not pay any costs during the contract period and the interests will be capitalized together with the capital. At the death of the subscriber either principal and capitalized interests will be paid back to the bank by the heirs or the bank will proceed by selling the house that has been mortgaged by the bank.

What are the experiences with consumer protection in place regarding ERS? Are additional regulations for ERS necessary?

The recent law in Italy about ERS was the result of a joint job of ABI (Association of Italian Banks) and Consumer Associations. This is an example of good interaction among different associations and between these associations and politics.

This process of formation of the law directly impacts the consumer protection. All the observations of Consumer Associations are now in the law: prospectus of the maturation of interests, co-header of house for the spouse, period of reflection for heirs, agreement at the time of sale of the house, etc. For the next steps, the principal point that is not in the law is to give the possibility to smooth the bank payment during the life of the elder.

Finally, Consumer Associations suggest the importance of financial education for the diffusion of these products and for consumer protection. Over the last decade Italy too has witnessed the development of financial education initiatives by numerous public institutions and private entities. The absence of a national framework that cohesively de-nes training gaps, priorities and criteria for intervention has nonetheless limited coordination of the various initiatives and the exploitation of synergies. The increasingly complex financial choices that citizens must make in the course of their lives require levels of financial literacy that are often higher than those currently recorded among large swathes of the population. Recent surveys document how levels of financial culture in Italy are among the lowest reported in the advanced economies for adults and students. The aim of financial education is to help people enhance their financial competency.

Abstract: Mr Nigel Waterson, (Equity Release Council-UK)

About the Equity Release Council

The Equity Release Council is the industry body for the UK equity release sector, representing over 500 members, including providers, qualified financial advisers, solicitors, surveyors and other industry professionals. The Council is currently celebrating

the 25th anniversary of when its Industry Standards were first introduced to establish a safe and reliable market for consumers aged 55 and over.

Recent trends

2016 saw the UK equity release sector reach a new landmark with annual lending surpassing £2bn for the first time. The sector's rate of growth also more than doubled from 16 per cent in 2015 to 34 per cent last year. In terms of customer numbers, equity release is currently the fastest growing mortgage market in the UK.

Equity Release in the UK

Equity release plans fall into two categories:

- **lifetime mortgage** – the consumer retains ownership of the home while extracting funds either in a single lump sum, or in periodic smaller amounts up to the maximum limit agreed. Interest on the loan can be fixed or rolled-up.
- **home reversion plan** – the consumer can sell all or part of the value of the property in return for a cash lump sum and/or regular income, while retaining the right to remain in the property, rent free, for the rest of their life.

Products

Of the £2bn lending, this was made up of £1.23bn of drawdown products, £918.86m of lump sum mortgages and £3.43m of home reversion plans. In 2016, lump sum mortgages increased their market share – accounting for 35% of the market, up from 29% in 2012. However, drawdown products remain most popular: there were 17,882 taken out in 2016, a 19% increase from 2015.

Consumer protection

With its Statement of Principles and product standards, consumer protection is at the heart of the Equity Release Council's operations, promoting high standards of conduct and practice in the provision of and advice on equity release.

For example, all Council members adhere to the requirement for all customers to receive independent financial and legal advice when taking out an equity release product. Product safeguards include: No Negative Equity Guarantee; the right to remain in the property for life or until the consumer needs to move into long-term care; right to port to another suitable property; and fixed or capped rate of interest for lifetime mortgages.

Extract from the Equity Release Council's consumer protection Standards put in place:

Statement of Principles

The Equity Release Council exists to promote high standards of conduct and practice in the provision of and advice on equity release.

Our members will –

- Ensure that all their actions promote public confidence in equity release as a potential retirement solution
- Act at all times in utmost good faith
- Communicate high expectations for equity release outcomes in all their dealings
- Ensure conflicts of interest are managed fairly and reduced to the lowest practical level
- Exercise due skill, care and diligence in all that they do and uphold the standards set out by their professional bodies at all times
- Always act with the best interests of their clients being paramount, treating customers fairly in all their actions.

Our provider and adviser members comply with the Financial Conduct Authority's (FCA's) rules governing the sale of equity release products. These rules include the requirement that all customers who buy equity release plans are fully advised by a qualified adviser.

In addition, our members have voluntarily adopted further safeguards. These are set out in our Rules & Guidance (www.equityreleasecouncil.com/standards/rules-and-guidance/) and are designed to give you confidence in our members and their products and services. These further safeguards include product standards and a requirement for all customers to receive independent legal advice when taking out an equity release product.

Product standards

Our product standards are set out below. Our members are only allowed to tell you that a product meets these product standards if it meets all of them. If you are offered or are considering a product that does not meet all of the standards, the product literature must explain which standards are not met, and give an illustration of the types of risk that this might pose for you.

Our product standards are as follows:

- For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a "cap" (upper limit) which is fixed for the life of the loan
- You must have the right to remain in your property for life or until you need to move into long-term care, provided the property remains your main residence and you abide by the terms and conditions of your contract
- You have the right to move to another property subject to the new property being acceptable to your product provider as continuing security for your equity release loan
- The product must have a "no negative equity guarantee". This means that when your property is sold, and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.

Independent legal advice

You may choose your own solicitor to carry out the legal work in connection with your plan. Before the plan is completed, your solicitor will be provided with full details of the plan, including the rights and obligations of both parties (you and your product provider) under the contract, should you choose to go ahead. Both you and your solicitor will be required to sign a certificate confirming that these rights and obligations have been explained to you and that you wish to enter into the plan.

Information about and explanation of your equity release plan

You will be provided with a fair, simple and complete presentation and explanation of your equity release plan. The benefits and limitations of the plan will be clearly set out, together with your obligations under the terms of the contract. You will be given information about:

- all the costs that you will have to bear in setting up the plan;
- the tax implications;
- what will happen if you wish to move to another property; and
- how changes in house values may affect your plan.

Approved November 2014

From the website: http://www.equityreleasecouncil.com/standards/

1.2.3.3 Panel 3: Theme: Equity release schemes: Characteristics of a good product

Thursday, 11 May 2017, 16:00-17:30h

Speakers: Prof. Donal McKillop (Queen's Univ. Belfast); Prof. Udo Reifner (iff); Mr Lennart Grabe (Hypotekspension Sweden); Mr John Moriarty (Seniors Money Ireland), Mr John Maher (Waterford Institute of Technology); Moderator: Mr John Maher (Waterford Institute of Technology)

1.2.3.3.1 Outline

Household formation and financial planning exists within a lifecycle of dependency/full time education, adulthood and full potential labour market participation, and retirement with non, limited or indeed continued full labour market participation. Equity release requires a convergence of pricing, value, risk, taxation, distribution, regulation, and an attractive benefit proposition relative to alternatives. Longer life expectancy, lower interest rates, house price inflation and fiscal pressures have rendered the objective of comfortable retirement income and consumption more problematic. Thus a search for fresh policy choices exists in Europe and elsewhere as society seeks solutions which could offer satisfactory outcomes in terms of savings accumulation, housing consumption, and capital decumulation over the lives of individuals and their households.

Aim & Structure

In this panel we will discuss the parameters and variables which are critical for the development of such choices and explore some examples of emerging possibilities for market solutions and policy development. We will start with a presentation which sets household financial decision making in the context of lifecycle frame and positions market behaviour in the context of need fulfilment over the lifecycle.

Current market practice will be examined and pathways identified for further evolution. The pooling dimension of risk will be addressed and the mechanisms for sharing and bearing the risk will be investigated. Regulatory aspects of product provision will also be considered from customer and supplier perspectives, having regard to critical turning points in market progression.

Questions

- What are the financial elements involved in leveraging capital from an individual's or household's residential property?
- How could households provide for housing and retirement income in a complementary manner?
- What risks must financiers and households manage in relation to housing capital accumulation or release?
- Is there a role for the State in contributing to risk management in this context?
- Is there a portfolio of solutions depending on when in the lifecycle, households decide on an approach to a synthesis between meeting housing needs and preparing for consumption in retirement?
- What are the critical regulatory issues and principles for current and prospective market development?
- Who could supply capital to this market and what does such supply now command?
- What are the salient features of an attractive market segment that would motivate entrants and competition?

1.2.3.3.2 Abstract: John Maher (Waterford Institute of Technology)

Views on residential property and retirement income from an Irish context:

In Ireland, aspirations relating to residential property have deep roots with individuals and families seeking to acquire and own their own homes during their working lives. However with the collapse in the supply of new homes since 2009, considerable growth occurred in the private rental sector. In addition the emergence of a sizeable mortgage arrears problem in the economic downturn led to reduced mortgage lending. This was coupled with the State largely exiting from the provision of new social housing due to budgetary constraints. More recently, house prices have recovered from the nadir experienced in 2009 and the negative equity experienced by some mortgage holders is steadily being mitigated. In addition, those who own their properties without any outstanding debt are once again being sensitised regarding the extraction of capital or income from their homes to augment their incomes. This situation exists in parallel to the pensions' scenario where less than half private sector workers have any private pension other than the *de minimis* amount provided by State social security. Thus many young adults which comprise the largest new household formation cohort face critical choices regarding paying for housing in the immediate future and making some provision for retirement. Early pension savings can benefit from compound returns over their working lives.

From a consumer perspective therefore, the opportunity for developing solutions which might offer acceptable outcomes for young and old exists. These would involve striking a balance between the elements which influence household resource allocation such as costs, tax treatment, value provided, risk, sustainability, housing tenure, and flexibility in changing circumstances. Meanwhile financial institutions and associated intermediaries can respond to market demand where acceptable returns can be obtained on capital, the new business acquisition costs and servicing costs are predictable and affordable within a pricing structure that would deliver growing sales volumes. Strategic considerations also influence such firms in terms of market positioning, fit with organisational mission, compatibility with core competences and expertise, and contribution to the overall product portfolio. Lastly, State authorities can use fiscal policy to provide signals to the consumers and financial institutions regarding public preferences for initiatives in pension and housing markets. Policy can frame new incentives or restructure existing ones to stimulate effective use of finance by parties on the demand and supply side of these markets.

The current research project led by iff-Hamburg and involving researchers in Germany, UK, Italy, Netherland Hungary and Ireland represents an exploration of the financial, social, structural and behavioural space within which the design of such policy solutions can be undertaken.

1.2.3.3.3 Abstract: Prof Donal McKillop (Queen's University Belfast)

Globally by 2050 there will be 2 billion people over the age of 60. Given increases in life expectancy it is anticipated that in many countries there will be more people beyond the state pension age, claiming pension benefits than the number of taxpayers. To ensure adequacy of retirement incomes many Governments, including the UK Government, are promoting private pension schemes and encouraging people to save more.[1] Running alongside this there is a debate about the use of housing as a source of retirement funding particularly for those who may be income poor but housing asset rich. Housing can be used to generate funding through downsizing, re-mortgaging or by purchasing an equity release product. This raises two basic questions. First, can we identify the characteristics of those households that opt for different means of housing equity withdrawal? Second,

[1] It is expected that the cost of providing state pension to UK pensioners will grow more than four times in the next fifty years from its current level of £121 billion. The gap in the funding for social care will also rise and is expected to be £2.9 billion by 2020. It is estimated that the average cost of long-term residential care is £28,367 per year, with provisions made by old people standing at approximately £16,027. ERC (2015) calculates there to be a shortfall of 44% between the funds estimated and actual provisions towards the true cost of care.

can we gain insight as to why households might choose one form of housing equity withdrawal over another? Academic research, both empirical and theoretical, can offer insights to both questions with the answers couched variously in terms of, lifecycle considerations, household demographics, consumption smoothing, precautionary savings motives, transaction costs and taxation, and bequest motives and emotional attachment.

The Research Team at Queen's have built on this literature, and using the UK Wealth and Asset Survey 2006 to 2014 as the test-bed, have sought to empirically determine, in a probabilistic sense, the characteristics of those who chose different forms of housing equity withdrawal and the factors important in determining the choice of one form over another. In terms of the purchase of an equity release product we conclude that demographics such as age and marital status are important as are liquidity constraint variables such as, household debt to income and loan to value ratios. While in the decision of whether to purchase an equity release product rather than for example downsize the factors of influence include age, marital status and the liquidity constraint variable, loan to value.

Moneyfacts (2016) estimates that for the UK, lending through equity release will reach £1.93bn in 2016, up 20% from £1.61bn in 2015. Moneyfacts (2016) notes that the range of equity release products has more than doubled compared with three years ago. This increase is due to new product providers and product innovation. The latter includes products which permit a percentage of repayments to be made without an early repayment charge as well as products which offer downsizing protection. Accepting that innovations are now occurring, the Research Team at Queen's has examined ways to enhance the attractiveness of equity release products.

Model One combines tax relief on a lifetime mortgage payment in conjunction with a lifetime mortgage product. It assumes that individuals receive tax relief on their initial mortgage payments. This relief accumulates to a pot of money, as in a standard pension system, which can be drawn from, either as a lump sum or as an annuity once the person reaches his/her normal pension age. In addition, the model allows individuals to withdraw home equity through equity release schemes once they reach their normal retirement age. This is similar to a standard lump sum mortgage product. The individual could make provisions for an amount equal to a proportion of the original mortgage amount released.

Model Two focuses on the No Negative Equity Guarantee (NNEG) offered by UK providers of equity release products. This model attempts to estimate the value of NNEG under current market practices drawing on the framework suggested by Andrews and Oberoi (2014). In our proposed structure, the NNEG risk could be covered through an agency in the form of a Public-Private Partnership. In simulation exercises the covering of the NNEG is found on average to double the percentage of the house value that the equity release provides can offer.

1.2.3.3.4 Abstract: Prof Udo Reifner (Hamburg University & iff-Hamburg)

Equity release for Pensions

Equity release is the attempt to transform individual property into a liquid asset which can be used for old age pensions. It tries to harmonise three elements of modern housing policies: (1) individual homeownership, (2) increased financing of house purchase and (3) the financialisation of care for the elderly. While there are no alternatives to the last two elements, the idea that the use of houses or flats for living has to be provided in an illiquid form is neither general nor coercive. Historically, renting a flat was a productive alternative to owning it, which is a choice through which large sums of money have to be advanced and kept illiquid until death. With extremely low homeownership rates, wealthy countries like Germany and Switzerland show that this alternative housing tenure should not be seen as outdated. This is why, within the European Commission funded project "Integrating residential property with private pensions in the EU", a proposal led by our Irish partners which seeks to integrate renting and old age saving (model 3 in the project

thinking) is an interesting path that should be kept in mind in discussions about the development of Equity release schemes (ERS). However, most countries join a different ideology. Homeownership is seen as the better form of living. "*My home is my castle*" prohibits the flexibility to move whenever you want to take up a new job opportunity, change property for a more adequate home when children leave the parental nest, look for calm more rural areas in old age etc. The permanent and flexible alignment of the offer of housing to its needs is excluded by forms of property which in the shift to an economy of users seems increasingly anachronistic. (see Subprime crisis, price bubbles, unaffordable living in urban areas). ERS provides a way out: "rent" your flat from a bank in the form of a mortgage.

But the existing techniques of lending still subscribe to the purpose of financing to acquire debt free property in the end. Own capital, large repayment instalments, and credit restrictions are seen as a foundation of a safe financial system. Another model being considered by the project (our second model) questions these assumptions. Financing can separate from life time and form a unit between heirs and legators. Ownership can remain with the users, but credit provides the flexibility. Nevertheless, such amelioration will only help the better off, those households who can at least combine a minimum of savings into one's home and savings for old age at the same time, although much more could be "released" if heirs would be integrated into the solution. A true step forward should question the adequacy of the legal forms of homeownership today. The alternative of being either owner or tenant is outdated. Industry has shown that transferring inflexible property rights to legal entities that can be governed through share and participation provides enormous flexibility. Our third model has been developed in this realm under the title "*Tenants buy their homes*". Those who can only afford to become tenants do not have to refrain from property rights. Tenants can buy and sell square meters of their flats, be tenants and owners at the same time and experience their rights as a true equivalent to personal property. Such solutions may contribute to ERS as well.

1.2.3.3.5 Abstract: Mr Lennart Grabe (Svenskhypotekspension AB)

Observations about Equity Release (ER) from a Swedish perspective.

Svensk Hypotekspension AB introduced ER in Sweden 2005. At that time in the market, some banks had a product for seniors called "seniorlån", which was a regular mortgage and on top of that a credit facility from which the interest due on the mortgage was regularly paid. When the extra credit was used up, typically after ten years, inherently the property was supposed to be sold to repay the arrangement. Also products where sold with a regular mortgage with the capital placed in a ten year annuity insurance, in turn placing the money in risky share-funds. Now all those banks have stopped supplying these products after a lot of criticism from a consumer protection perspective and some terrible mishaps with the insurance solution. Only our product, which was based on the 2005 British SHIP-code (Safe Home Income Plan, now succeeded by the Equity Release Council's rules) with a lifetime commitment and a no-negative-equity-guarantee, prevails. The market in Sweden for funding via a warehouse bank facility during the build of loan stocks, subsequently repaid via the issuing of ABS-bonds in the fixed income market, is functioning. We have completed two rounds of this, and are now using our third warehouse facility for the lending. Next securitization is planned for 2020.

I find it important that ER always is defined and presented in accordance with the EU-directives wording: "certain credit agreements where the creditor contributes a lump sum, periodic payments or other forms of credit disbursement in return for a sum deriving from the sale of an immovable property and whose primary objective is to facilitate consumption"… An assessment of the consumer's creditworthiness… is irrelevant since the payments are made from the creditor to the consumer rather than the other way round... other products, such as home reversions… have comparable functions to reverse mortgages or lifetime mortgages."

My point is that ER must not be seen and presented as a loan in the normal sense. It is a way of selling a property, like in home reversion schemes. It is an agreement between a creditor and a homeowner to share the proceeds from the future sale of the home. The creditor gives the homeowner an advance of the future proceeds. Of course, the creditor wants to have some return on the advance, which it gets in the form of a gradually increasing share of the future proceeds, computed in the form of an accumulating interest to be added to portion represented by the advance. In accordance with this concept, it goes by itself that the share cannot become larger than 100 %. The presence of what is generally called the "no-negative -equity-guarantee" (NNEG) is a matter of course, and the concept thereby should not reasonably be at risk for having consumer protection measurements against over-indebtedness applied upon it. If you introduce a product without NNEG, you, in my opinion, corrupt the concept of ER and must accept to be subject to restrictions applied on normal indebtedness.

The problem experienced in Sweden is that the above way of understanding ER has not yet been accepted by Swedish authorities. They tend to look upon it as a regular mortgage, since it legally and formally is shaped in the form of a mortgage credit, which then automatically falls under the rules and regulations for regular mortgages where the borrower has to pay interest and amortizations. (This also lends itself to erroneous price comparisons between ER credits and regular mortgages.) The Swedish FCA is of the opinion that the ER should be mandatory amortized by 1% yearly as soon as the total debt exceeds 50% of the value of the home, as for other mortgage loans. In addition It has recently been suggested that also ER credits should be subject to restrictions against over-indebtedness, like limitations of the allowed lending to e.g. a certain times net income, which is directly in contrast to the wording in the directive. I am presently using most of my time trying to change all this.

The matter will be decided in new legislation, which will be presented to the parliament this fall. This might be the end of ER in Sweden. Hopefully I succeed in "selling" the above right way of looking upon ER to the politicians to save the business.

1.2.3.3.6 Abstract: Mr John Moriarty (Seniors Money)

Perspective on Equity Release

Frame of reference

My perspective on the equity release space is framed by over ten years' experience of working in the industry for a lender - Seniors Money International (SMI). SMI was founded in New Zealand in 2003 to offer Lifetime Loans (equity release mortgages) to over 60s, and entered the Australian market shortly thereafter. I joined the northern hemisphere management team in 2005 with responsibility for Finance and Operations. We launched operations in Ireland and Spain in 2006 and in Canada in 2007. Following the onset of the global financial crises, the group focused its funding capacity on Ireland, New Zealand and Australia. We sold the Canadian business in 2010 and the Australasian businesses in 2014, so today the group comprises the Irish and Spanish operations and portfolios.

SMI remains the only specialist equity release provider in the world to enter multiple country markets. I have been involved in every aspect of developing and managing ER lending operations across these markets and am currently Group CFO.

Observations – past and emerging

Over the past decade I have experienced the industry cycling from boom to bust and, potentially, now being on the cusp of re-emerging in terms of new business growth. The over-riding observation is that, whilst the demand-side is in rude good health (as populations age and face ever-growing challenges to fund retirements), the supply-side has been broken for a number of years: The old bank-funded model, of warehouse funding refinanced by securitisation, was hit hard by the banking crisis whilst the insurance industry, which ought to be the obvious candidate to match long-dated ERMs to their long dated liabilities, has struggled to work out how to do this under Solvency II. The UK

regulator has been at the forefront in putting an SII framework in place for ER assets, so it is perhaps no surprise that the UK market has experienced a record-breaking year for new business, largely funded by insurance funders. This has not been the case in other EU markets.

Public policy and regulations

The legislative and regulatory frameworks that cover ER vary greatly between countries – specific laws and regulations in some countries and none in others. Given its nascent nature and small size, the industry is easily overlooked when both prudential and conduct of business regulations are formulated – witness SII. Rigorous prudential and conduct of business rules are very desirable, but need to be framed within a wider public policy recognition of the vital social need that ER can fulfil. The industry needs to be promoted, not just regulated. In the short run, initiatives to clarify the capital requirements for ER assets (there is little transparency from Central Banks on this) would stimulate investment in the assets. Noting the federal support for the US reverse mortgage industry (via HUD programmes to insure certain lending risks), similar state- or EU-level support should be in place to provide (or at least enable the provision of) insurance to cover NNEG risk.

Aspirations for the future

When the global financial crisis hit in 2008 SMI rescaled its business to meet the new environment and, supported by its shareholders and bankers, adopted a strategy of retaining the key personnel, IP and market presence to be in a position to return to a growth strategy once favourable conditions returned. SMI aspires to the resumption of new lending in the near-term, initially in Ireland, followed by a return to the strategy of entering a number of selected international markets.

1.3 Summary of the stakeholder meeting at the Andrassy University Budapest, Hungary (June 2017)

On 23 June, 2017 an international expert meeting entitled "The future of old age provision – demographic change, financial services and residential property" was held at the Andrássy University Budapest. The aim of this stakeholder meeting was to discuss Equity Release Schemes (ERS) and their future possibilities, with a special focus on Hungary.

At the meeting, the perspectives of providers, customers, regulatory and supervisory bodies and the academic sector were presented, and thus the topic was discussed from the point of view of nearly all stakeholders involved. Despite the efforts of the organizers, representatives of the life insurance sector, which – according to the current Hungarian legislation – may be the future potential providers of ERS products in the Hungarian market, were absent.

The meeting started with the opening address of *Martina Eckardt* from the Andrassy University Budapest (AUB), who welcomed the guests and stressed that the pension system in Europe is an important challenge which must be solved. The same point was emphasised by *Dietmar Meyer*, Rector of the AUB, who in his welcome address underlined that new approaches and new solutions are essential for Europe to be able to support the elderly.

The next presenter, *Jörg Dötsch* from the AUB, provided a short overview of the project "Integrating Residential Property with Private Pensions in the EU"[2] and presented its partnership, research objectives, initial outcomes and some findings on the Hungarian market. Following this, *John Maher* from the Waterford Institute of Technology, Ireland focused in his presentation on the retirement income pillars, the potential capital and income generation/ release from residential property and different proposals that have

[2] This project is funded by the EU Commission, DG Employment, Social Affairs and Inclusion, VP/2014/014/0037.

been examined in the project (e.g. unitised, leveraged, collective acquisition of residence rights with encashment of those rights post retirement, or, mortgage acquisition of residence with pension released from house, post retirement). Moreover, he outlined some overall parameters and proposals to be discussed, such as desirability and feasibility, obstacles and enablers, beneficiaries/ population cohorts, prerequisites for viability of the proposed solutions, scale of intervention and the relative priority of interventions. He also emphasised that if we want a good model, the scale is very important.

The next speaker, *József Hegedűs*, CEO of the Metropolitan Research Institute, Budapest, gave an overview of the topic from the point of view of a sociologist. He referred to the integrating mechanism concept as articulated by Karl Polanyi (Polanyi's work suggests that the market cannot be sustained without state regulation and a particular type of developed, ingrained social culture). Hegedűs also noted the impact that Airbnb is having on the rental market in Hungary (shifting supply from conventional residential renting to short-term tourism-type renting). Hegedűs envisaged choices regarding three sources of solutions to housing and income/ living standards in retirement: state, market, family. Family solutions include a life support contract in exchange for tenancy or occupancy rights. Hegedűs characterised housing as a special commodity, which thus merits particular consideration and treatment in a societal context. He also stated that privatising housing had the propensity for reinforcing or accelerating social inequality – look east for example to Russia. Moreover, he contrasted active earners (asset poor & cash rich) with retirees (asset rich & cash poor). Hegedűs gave some insights on a 1998 study performed in Hungary with respect to housing equity, which found that a housing equity release product was not feasible. He also referred to a DEMHOW study,[3] which concluded that releasing housing equity was competing with family care solutions. Lastly, he mentioned a deepening gap between social classes emerging in Hungarian society and highlighted the distribution of income, housing wealth and arrears over different quintiles.

Following this, *Imre Hild*, co-founder of Hild Life Annuity and founder and managing CEO of OTP Life Annuity presented the experiences of equity release programmes in Hungary from the providers' perspective. In his presentation, The Story of the Life Annuity for Real Estate Model 2004–2009 in Hungary, he gave an overview of the main features of life annuity for real estate programmes in Hungary and highlighted why such programmes could be viable and attractive in the country. He categorised the reasons into three main groups: structural reasons (e.g. in 2004 there were 170,000 pensioners without children and 40–50 per cent of pensions was spent on maintenance and upkeep), financial reasons (e.g. for most of the target market the apartment was acquired at EUR 1,000 and the average pension was EUR 300 in 2004) and social reasons (e.g. Life Annuity for Real Estate has been known as a private contract since 1950s and it could change the lifestyle of the elderly without admitting hardship to neighbours). Summarising the experiences of the 2.5–3 years of operation, he explained that the average age of the contracting parties had been 71 years old; the average real estate value had been HUF 12.4 million; among the contracted properties 60 per cent had been apartments, 30 per cent had been houses and 10 per cent had been weekend houses; the upfront payment had been 25 per cent of the value of the property at the beginning, which had risen to 40 per cent due to increasing competition between different providers; and the average monthly annuity indexed by inflation had been HUF 30,000. As for the overall results of the 2.5–3 years of operation, Hild indicated that approximately 5,000 clients / 4,000 properties had been involved, HUF 13–14 billion in upfront payment had been made and HUF 50 billion in real estate value had been involved (this latest was a total by all three providers that were present in the Hungarian market from 2004 until 2008, when the ERS programmes came to a halt in Hungary due to a real estate crisis triggered by the global financial crisis). Lastly, among the lessons learnt, Hild mentioned that the key had been to speak with the customer voice; the contract had had to be a simple, no catch contract; security meant more than cash

[3] For more information on the results of the DEMHOW project, see http://cordis.europa.eu/project/rcn/88908_en.html.

and that life annuity programmes had saved lives and overall, it had proved to be more than a simple financial programme, since it had turned into a social programme at least from the customers' point of view. However, only part of the social problems raised by their clients could be fixed by a financial product like ERS, Hild stated.

The last presenter, *László Kalmár*, CEO of Europ Assistance Hungary (a company active in the field of providing care and insurance services for life annuity programme participants), presented the topic from the customers' perspective. Apart from the presentation of his company's activities, he gave an overview of the number of open cases since January 2014 and he also emphasised the importance of being able to speak with a customer voice and also taking care of some needs of the customers which were not covered by the contract.

Finally, the stakeholder event was concluded with an open discussion, where participants also considered the future of ERS programmes in Hungary. It was mentioned that since 2015 only insurance companies were allowed to offer ERS products in the country, due to a change in the statutory requirements for operating such a business. However, there has not been much interest from the insurance companies so far, according to *Ferenc Szebelédi*, head of the Insurance Supervision Department at the Magyar Nemzeti Bank, representing the point of view of the regulatory and supervisory authorities. All in all, participating stakeholders agreed that despite the present situation, the ERS market could evolve over time.

1.4 Summary of the stakeholder focus group round of talks, Hamburg, Germany (October 2017)

Location: Institut für Finanzdienstleistungen e.V. (iff), Grindelallee 100, 20146 Hamburg

Moderation: Michael Feigl (iff)

Date: October 18th, 2017

1.4.1 Introduction

Iff forwarded invitations to various stakeholders which was accepted by the following 9 organizations:

- DEGIV – Die Gesellschaft für Immobilienverrentung GmbH
- Deutsche Leibrenten Grundbesitz AG (Anwesenheit 1 Stunde)
- INITIUM AG
- Stiftung Liebenau, kirchliche Stiftung privaten Rechts
- Stiftung Warentest
- Technische Universität Chemnitz
- Verbraucherzentrale Bremen e. V.
- Verbraucherzentrale Hamburg e. V.
- VMT Consult GmbH

Each organization was represented by one person.

1.4.2 Debated Issues on Selected Topics

The round of talks forms part of the EU-Project "Equity Release Schemes" joining project members from the Netherlands, Hungary, Ireland, Germany, England and Italy, who analysed and assessed both conditions and schemes of property-based pensions in their respective home countries. A principal aim of the project was to find out commonalities allowing for the design of a European wide scheme for property-based pensions.

Underlying the rounds of talk taking place in each of the participating countries was a common guideline devised by the members of the project beforehand. These are presented under twelve themed questions.

1.4.3 Comprehensibility and Feasibility of Property-based Pension Schemes

1. **Reverse mortgages have almost totally disappeared from the German market. What makes them so difficult that this could occur?**

One dialogue partner summarized existing difficulties as follows:

"The reverse mortgage is an absolutely bad product. Seen from the perspective of a bank it is a non-performing loan and does therefore not serve the interests of the financial. Seen from the perspective of the client it is a product whose benefit depends crucially on the collateral value of the underlying property and thus does not really offer full insurance of longevity risk. Rather, full insurance requires the combination with further financial products rendering schemes based on the sale of the property as superior. Reverse mortgages are more expensive, less attractive and therefore not of interest."

Further contributions indicated judicial problems, for example:

- Banks are unable/not allowed to bear longevity risk. In order to overcome this problem reverse mortgage has to be combined with insurance.
- Prohibition of compound interest complicates the calculation of reverse mortgages.
- If the home-occupant decides to move out during his lifetime, the loan will become due thus provoking the risk of over-indebtedness.
- Contrary to the US there exists no state guarantee which prevents the home-occupants from over-indebtedness.

The dialogue partners reported on their experiences and discussions with consumers. They agreed that after getting familiar with the costs, benefits and risks of reverse mortgages, consumers concluded that the size of resulting pensions did not come up with their expectations. Accordingly, a large gap between reality and expectation obviously exists. Also missing transparency and high complexity was criticized.

2. **How can these problems be solved in Germany? How would the prevailing model have to be changed?**

According to the participants of the talk various approaches to solving the prevailing problems with reverse mortgages exist:

- Judicial solutions (though adverse mortgages are considered as of too little importance to provoke a lifting of the prohibition on compound interest).
- Reverse mortgages have to be a political concern.
- A high level of transparency in particular concerning the truth of reverse mortgages. Furthermore a reverse mortgage plus an insurance should be offered as a compound product.
- Standards are needed for example with respect to liability rules. The redemption amount should be in close correlation with the value of the underlying property.
- There should be alternatives to banks as suppliers of reverse mortgages. ("Banks give the money and get it back. However, they are not interested in handling property"). Banks are afraid of suffering losses in reputation and are quite unwilling to advance this topic.
- As a due consequence banks should use capable partners.

- Reverse mortgages have to obtain a greater degree of public awareness.

Notwithstanding these suggestions, a few dialogue partners remained to be convinced that reverse mortgages are a total failure since the construction of non-performing loans offers no benefit to banks.

3. **Given that you would have purchased a reverse mortgage, how would you spend the money?**

The moderator reports on results of a survey conducted with a German focus group of 19 participants. The summary is included in the appendix.

The dialogue partners were asked to fill in a document which they had received beforehand and to answer the question quoted above.

Result: The main bulk of financial means would be spent on medical care followed by leisure activities and food/services as well as support for the family.

1.4.4 A general look at the property-based with a focus on German schemes

4. Which target groups have an interest in the topic?

The dialogue partners report on their daily experiences with interested home occupants. However, a word of caution is in order at this place since the following statements are not sufficient to obtain a comprehensive insight into the overall market situation.

"The majority of interested clients own a single property which they occupy, and receive above average retirement pensions. Moreover they are highly educated and overwhelmingly belong to the group of academics. As a rule they dispose of further wealth and are therefore not dependent on these additional incomes. Their average age is 73."

"*This target group is composed of people with a single freehold-property serving as their retirement provision. Their level of education is between average and above average, and frequently they had been self-employed*."

"Interested consumers are elderly people receiving retirement pensions, but also relatives like children or grandchildren searching for a solution for their parents or grandparents. They are looking for a solution to medical care, nursing care and home care."

They are people from the new federal states (neue Bundesländer) where financial problems loom particularly high. "*Their freehold property is the only source of old age pensions available…They have become unable to cover their daily expenses and perhaps are even over-indebted…The supply of basic needs comes first---Leisure has no importance for these clients…They had been saving during all of their lifetime, they also are fond of saving for their children and tend to practice self-denial in favour of their children. Then there are clients without any heirs…They want to travel and to indulge themselves in the various amenities of life. They do not want to leave anything at the end of their lives…Then there are those planning to structure their bequest either with the intention to bequeath nothing at all ("This person certainly will get nothing at all.") or to find a solution to the problem that there are children from the first marriage. These last two groups are wealthier…The average age of clients concluding contracts is 77*."

In search of independent advice are "*younger people asking on behalf of their parents,…people who are still in their working life but already reflect upon their old age,…those who say that they do not have enough money to maintain their property,…Among them are not only childless people but also those saying "I saved for the house during the first period of my life, and now I would like to benefit from that." But frequently there are people (being the most problematic ones) who either receive a small pension only and/or are in need of doing some improvements in their houses. Age and the level of education are rather mixed, rather with a tendency towards retirees*".

Into the bargain come retired indebted people among them formerly self-employed ones who are exposed to some pressure by their banks due to a still existing residual debt. One of the dialogue partners emphasized that 20% of his clients have problems with residual debt and are in search of rescue. Finally, also widows belong to the group of interested consumers who live on 60% of her late husband's pension and have become unable to bear the costs involved in the maintenance of their properties.

Some of the dialogue partners are convinced that German consumers do not want to build up debt in the old age. This holds true for the postwar generation willing to protect acquired possession. The new generation rather tends to consume. Hence we observe some change in this respect.

5. **Why have property-based pension schemes remained a niche product in Germany? Why did the classical suppliers of financial services withdraw from this market?**

The dialogue partners indicate the following reasons:

- The classical reverse mortgage is a product provided by banks with all the risks that have already been discussed, and it is unattractive for consumers.
- Property-based pension products ask for intensive consultancy absorbing periods up to 6 months until a contract comes to be concluded. Moreover bank advisers/intermediaries of these products are not sufficiently trained. Since the group of interested consumers is predominantly composed of elderly people, the age of the intermediating person or bank adviser (rather younger people) plays an essential role. This is why these products are unattractive for banks and insurances.
- According to the opinion of one dialogue partner, the supply of products should cover both the characteristics of cities and of the countryside in order to be attractive for consumers. However, the current products are suited to higher property values thus failing to become a mass product.
- The public awareness of property-based pension schemes is rather low.
- Consumers want a sufficiently wide array of products in order to have a real choice. This contrasts with the reality of only a single national-wide supplying institution (which supplies lifetime annuities in the first place).
- Potential clients are overwhelmed by the high complexity and above all judicial specificities. Moreover, in public debates the differences between lifetime annuities and reverse mortgages is not made sufficiently clear.
- Professional suppliers are needed who have developed an expertise concerning these pension schemes and hence have the qualifications to explain the products clearly enough. These experts should also dispose of base documents, which allows their repeated use.
- The suppliers of lifetime annuities need more capital and are forced to conclude significantly more than two contracts per year (one of the participants proposes two contracts per day).
- A higher degree of standardization is necessary in order to increase the level of transparency (base document). This in turn calls for standardized suppliers.
- The use of home ownership occupancy as a source of old age income has not yet existed during the last 100 years. However, because the traditional extended family has lost its importance, a mind shift is indeed taking place, though rather gradually implying that more time is needed.

- Increasing regulations concerning the consumption of energy burden home occupants with ever rising financial expenses. An increasing number of home occupants find themselves unable to cope with the costs.

One dialogue partner presents his preferred model: life estate and endowment insurance combined with an obligation to maintenance assumed by the new owner. Contracts should be concluded directly between private actors without any intermediary. The typical buyer of these homes is in pursuit for a profitable investment of his/her wealth. Currently this business model is practiced in Munich.

6. Are we really in need of property-based pensions in Germany?

Questions asked by the moderator:

- If we took all existing products from the market now, would that mean a catastrophe for Germany?
- Is it possible at all to promote a breakthrough for property-based pension schemes without involving traditional financial institutions?

In Germany there already exist alternatives like the classical sale of property combined with a (lifetime) right of the seller to continued occupation of the house, and comparable non-standardized models.

The dialogue partners agree that financial institutions are no necessity and point to the US in this respect where the large banks are not involved at all.

One dialogue partner states that

"These products will not prevent a trend towards old age poverty…In order to sell these products we do not need banks, however banks are necessary to ensure the purchase of property by institutional suppliers of lifetime annuities. The question is to what extent banks will be willing to assume this role…"

The dialogue partners suggest the following:

- Real estate companies are needed which are willing to dedicate their business activities to the retail business, which currently is dominated by large companies.
- Possibly large real estate companies, too, can be motivated to take part in the "lifetime annuity business".
- Powerful partners are needed with a willingness to take care of the people involved and not only of the property. In particular individual life cycles should be taken into account.

One dialogue partner estimates that the market with property-based pensions has a potential measured in billions of Euros. He believes that it will therefore be necessary to include banks since it turns around a lot of money.

1.4.5 How to Market Pensions out of Property in Germany?

7. Should the topic "property-based pensions" form a systematic part of the classical pension consultancy activities? Should it form part of advisory services in the area of real estate finance?

Concerning the classical pension consultancy:

- The majority of dialogue partners is of the opinion that since real estate typically forms part of pension consultancy this should also apply to property-based pension.

- Opinions differ when it comes to answering the question whether property should always be included into pension consultancy which would imply the acknowledgement that advisory services concerning old age incomes also include the choice of investment strategies or a clarification of whether life annuities compete with private pensions, insurances etc. Whenever advice is given under the condition that freehold property should not be considered to form part of securing the achieved standard of living in the old age, then neither the option of achieving home ownership nor the option of achieving a property-based pension should be addressed. The dialogue partners point to an observed preference for a high degree of mobility as an explanation.
- A few dialogue partners wish products with a higher degree of concreteness thus facilitating communication with consumers.

Concerning real estate consultancy:

- Predominantly the dialogue partners agree that the integration of property-based pension schemes into the classical real estate consultancy would be premature. ("*We don't know the types of models proposed after the next 30 years").* The focus is basically on the achievement of real estate whereas its utilization lies too far ahead thus overburdening the process of consultation.
- If the topic relates to the financing of a downsizing model, then property-based pension schemes should be addressed but also taking into account the regional aspect. A few dialogue partners hold the view that the consumer's property should be free from debt at the time of retirement in order to be used as a source of old age income. Others contradict this view pointing to consumers' obligation to pay a rent during their old age.

A few dialogue partners report from their experience that above all self-employed people dispose of no other wealth than real estate which typically is still indebted at the time of retirement. Since these people are usually left alone, in particular since banks tend to auction the indebted property in this case, there is agreement on the necessity of models which absorb these cases and thus offer protection from old age poverty. Both suppliers and home-occupiers could benefit from this.

As further examples the dialogue partners indicate financial models based on endowment insurances which are not sufficient to redeem prevailing residual debt.

1.4.6 Required Skills of Property-Based Pension Advisers

8. Given that property-based pensions form part of pension consultancy, would minimum standards concerning the qualification of advisers be a necessity?

The dialogue partners agree that this should be the case. They point to the following aspects:

- The set of required skills does not justify a novel vocational profile. Rather it constitutes a kind of additional qualification.
- The required set of skills should be a compound of real estate consultancy ("*land registry, lifetime annuity, sales contract…, pension consultancy and knowledge concerning nursing costs, nursing care insurance, provision of services by the state,…"*).
- Qualified bankers, insurance salesmen with a certain seniority should be preferred as advisers.

- The achievement of required skills should not be an affair of bank or insurance associations. Rather something independent from these sector associations is preferable.

1.4.7 Achieving Public Awareness of Pensions out of Property

9. We have agreed that a higher degree of public awareness for property-based pension schemes is necessary. Which ways of achieving this aim should be preferred?

The moderator distributes a written document among the dialogue partners with the intention to receive answers to this question.

As a result, the following ranking was obtained:

1) Websites
2) TV advertising spots as well as the offer of costless personal advice
3) Advertisement in newspapers and magazines

The dialogue partners consider social media as less or even not effective at all.

The dialogue partners emphasize the importance of reliable and comparable documentation.

The moderator's comment: *"The focus group ranks a costless and independent advice first. Consumers need to be taken by the hand".*

10. What can the state do? Should the government do something for consumers and suppliers, respectively?

The dialogue partners agree on keeping the state aloof as far as possible, with specific exceptions to this rule: *"The state should stay outside as far as possible", "the more the state remains outside, the better", "on principle no regulations for example like those in the US are necessary", "no subsidized products", "the more the state interferes, so much more difficult, complicated and complex will it become"…*

The dialogue partners work out the following expectations:

- The state should acknowledge, welcome and support products providing property-based pension schemes and an existing need thereof.
- State support is necessary with respect to the certification of qualification and the guarantee of the quality of consultancy, for example by help of appropriate training rules.
- Frameworks for minimum standards have to be established concerning information duties, "*loans do not provide a convincing example, it has to be feasible".* Minimum standards are also in the interest of suppliers since they promote trust.
- Corner pillars concerning the manifestation of the products have to be specified in order to create transparency. "*Product fact sheets can be placed side by side and the contents can be compared".*
- Transactions cost have to be reduced (in particular real estate transfer taxes). "*What has become a tendency during the last years, i.e. to increase the transactions cost involved in real estate business gradually thwarts any successful conclusion of contract….Real estate transfer tax, registry fees, it is the consumer who has to pay for all that".*
- In order to achieve a non-profit status, it is prohibited that multiple objects are considered as commercial property: "*With respect to the non-profit status we are concerned with the topic "three-objects-restriction". It has not been decided yet".*

- A rule should be established according to which the heirs receive remuneration for the right of residence on the death of the home occupant. This should be guaranteed in the land registry by a maximum liability guarantee. There should be clear regulations on what consumers receive during their lifetime as well as what their heirs obtain.
- Of particular importance is the guarantee of cash-flows to the consumer if the supplier of lifetime annuities becomes insolvent.
- A special directive should make sure that there will be no credit assessment involved in a reverse mortgage.
- One dialogue partner is convinced that the supplier of lifetime annuities should have a non-profit status. This would rule out the risk that it is the shareholder value determining business strategies ending up in unattractive products for consumers.

"State interventions create trust".

1.4.8 Further Models Conceived in the Project

11. **Do you consider the models conceived in the project as useful and realizable?**

The moderator presents three models which have also been documented in a handout.

> "a. *The lessor receives a lower rent, the lessee invests the difference in a savings scheme. Lessor and lessee agree to lifelong commitment to each other. This serves to making the lessee feel that he/she lives in his/her "own" property for the remainder of his/her life."*

The dialogue partners come to the following conclusions:

- The lessor is not interested in committing himself for a long period in particular in light of a great number of people looking for houses or flats to rent. Moreover, the lessor will not be remunerated for the reduction of the rent which he receives. Many questions remain open. For example what happens if for some reason the lessee will be obliged to move out? From the perspective of the lessor this model appears unfeasible.
- It remains an open question why the lessee should bind himself/herself. Typically rent will be preferred if the income does not suffice to buy property and/or if there is a preference for a high degree of flexibility. Taking the perspective of the lessee, the model does not make sense.
- Moreover numerous legal adjustments would be required.
- As an advantage of the model the dialogue partners point to its simplicity.

> *„b. "Intelligent reverse mortgage". The purchase of property is combined with a reverse mortgage. During the repayment period, the home-occupier receives government grants."*

The dialogue partners make the following points:

- It will not be possible to calculate a minimum size of the pension at the contract date.
- There are too many uncertainties until the occupy-owner enters the period of retirement, for example it might become necessary or desirable to sell the property or to take up a job in another city or whether the status of the family will remained unchanged. "*I do not want to increase the degree of inflexibility of property".*
- A possible use of the property with detrimental tax consequences makes the model complicated.
- There remain open questions like the taxation of the pension.

The dialogue partners therefore conclude that the model is inflexible and not attractive.

> *„c. We consider a group the members of which are neither able to save significant amounts of their incomes nor to purchase a house. Therefore they found a closed fund into which they pay a small amount of money as equity. In addition the group attracts external investors. The fund purchases a block of flats which is rented by all members of the group. Out of the rent payments the investors receive an agreed rate of interest. During the coming years the lessees have the option to acquire further shares of the fund. Then the fund closes. After the distribution of the shares at a later date each group member has the opportunity to use the payments in order to finance his/her flat by help of a bank loan. In the old age he/she will be home owner and can sell his shares as well as pay his/her rent."*

- *The dialogue partners see no advantage of this model compared to a cooperative. In a cooperative, too, the members are allowed to acquire more shares than they are obliged to, and of course the acquired shares can be liquidated later on.*
- *It is also possible to acquire shares of an open real estate fund maybe even for the occupied house with shares being tradable.*
- *By contrast the solution of the proposed model is inflexible because as long as the fund is closed sales of shares are not possible.*
- *The model is suitable only for a small group the members of which have to get along well. Moreover, uncertainties concerning individual life plans including change of residence have to be taken into account.*
- *The model is complicated.*

The dialogue partners conclude that the model lacks practicability.

1.4.9 Advantages and Disadvantages of Lifetime Annuities and of the Downsizing Model

The dialogue partners agree that there are good arguments in favour of both models and that the decision of the consumer for either model depends on his/her personal situation.

Arguments concerning the downsizing model:

- Involved are a purchase and move into a smaller and more up-to-date property with a flat in a retirement complex as one of the alternatives.
- Downsizing will rather be preferred at a younger age or when the consumer enters retirement.
- A readiness to change residence is important.
- The model will function only if the environment of the new property is suitable to consumers' needs.
- The new property has to suit the special needs of elderly people.
- Downsizing requires a lower degree of consultancy. However, what remains are advisory services concerning the way of life, the advantages and disadvantages and the suitability for the consumer.
- The current lack of appropriate flats is considered as a problem. This lack particularly concerns small flats compared to large flats. This leads to the situation that "*relating to sales prices the consumer gives away a large flat at a low price to buy a small flat at a high price*".

Arguments concerning the lifetime annuity:

- "*No change of lifestyle, but more liquidity*".
- Home occupancy remains, no change of residence is required.

- However, the attractiveness of the location decides on whether a lifetime annuity is possible.
- Apart from the right to a pension and the right to lifetime home occupancy several additional services are supplied. The selection is made according to the personal needs of the consumer. This refers for example to the diverse options of maintenance, the rights and duties of the heirs on the death of the consumer plus the answer to the question to what extent the state is permitted to interfere into these agreements, the minimum duration for the pension, the minimum payment should the consumer become a nursing case and gives up his/her right to home occupancy, the guarantee of a lifelong pension etc.
- *"You can regulate things, you can negotiate, but nothing is for eternity".* By consequence, consultancy will be elaborate. In addition it should be taken into account that interested clients will frequently be older than 60.
- As a rule consumers are rather unfamiliar with lifetime annuities and are in need of neutral consultancy. This applies in particular to the various options which are possible with that model. Likewise expertise is necessary to learn the personal needs of the consumer. Finally, everything has to be dumbed down for the consumer.
- It is possible to dumb down this complicated topic but there must exist a basic interest on the part of the consumer.
- Currently an independent consultancy is unable to compare concrete products. Advisers support the clarification of what the consumer considers as important thus allowing him to make a qualified decision – "help allowing for self-help".
- Any comparison of different concrete products must be guided by criteria adjusted to the personal needs of the consumer as much as possible. In order to achieve this, we should have several and not just one supplier.
- Business with lifetime annuities is closely related to trust. "*Who is it I will have to deal with, do they really care of me"?* Financial affairs are one thing, but there is also the following qualitative point: "*I still occupy the house and hence sell myself".*

12. **Can we really recommend lifetime annuities taking into account that first it might be problematic from a moral point of view to recommend a product betting on death, and second, if we consider insolvency risks?**

The dialogue partners deny that there is a moral problem turning around the impression to bet on death. Of course, the statistical life expectancy plays a role. However, consultancy includes basically the whole range of possibilities before a concrete product like a lifetime annuity is chosen. Hence a lifetime annuity will never be proposed as the only solution but as one of several options each of which satisfies specific needs. The first question by the consultant typically is "*Do you want to continue occupancy in your home"?* and the second "Why"?

Concerning insolvency risk the dialogue partners agree that the consumer should be aware of his/her contract partner. "*Private persons pose too high a risk",* was the opinion of one member. Another dialogue partner emphasizes: "*This concern has to be ruled by the legislator. No matter what happens with the supplier, the consumer has to receive the agreed upon cashflow and the right to occupancy has to be guaranteed".*

1.5 Summary of the stakeholder forum in the UK (2017)

UK Stakeholder Event – Summary

This section summarises the main findings of the stakeholder event in the UK. The stakeholder event encompasses fourteen semi-structured interviews with equity release providers, advisers, intermediaries and financial regulators and industry representatives.

1.5.1 Data & Methodology

The purpose of this research was to identify the shortcomings of the current market for equity release schemes in the UK. This required an analysis of the viewpoints from experts involved in the equity release industry. These experts were contacted by phone and email. Once they agreed to participate a telephone interview was arranged. There were fourteen semi-structured interviews conducted with officials from equity release providers, product specialist advisers and intermediaries, the trade body and financial regulators. The interview schedule elicited views on barriers to the growth of the market, the need for regulatory changes, the role of the government in this market and the need for a change in perceptions of consumers. It also elicited views on the overall role of housing wealth and equity release as a way of addressing the long-term care and pension needs in the UK.

Table 1 below lists the service provider types represented by 16 participants. Although we conducted 14 interviews, there were more than one representative from two organisations. We have anonymised the data to protect confidentiality.

Table1: Composition of stakeholder sample including 16 participants, by type

Service Provider Type	N
Private sector - Financial provider (FP)	10
Private sector - Specialist financial advice provider (FA)	2
Private sector - Financial intermediary (FI)	1
Not for Profit – Financial regulators and industry representatives (FRIR)	3

The organisations were interviewed on the following dates:

Table 2: Interview Dates

Stakeholders	**Interview Date**
FI1	Interviewed on 20/07/2017
FRIR3	Interviewed on 23/08/2014
FRIR1, FRIR2	Interviewed on 17/08/2017
FP1	Interviewed on 11/09/2017
FP2, FP3	Interviewed on 14/09/2017
FA1	Interviewed on 20/10/2017
FP4	Interviewed on 05/09/2017

FP5	Interviewed on 11/08/2017
FP6	Interviewed on 13/09/2017
FP7	Interviewed on 13/07/2017
FP8	Interviewed on 31/07/2017
FP9	Interviewed on 16/08/2017
FP10	Interviewed on 10/08/2017
FA2	Interviewed on 25/09/2017

1.5.2 Key findings

- **Main barriers to the growth of the market for equity release products**

The interviews offer several explanations to why the market is small, why only a fraction of over 55-year homeowners use equity release schemes and what is stopping the market from developing. The main hurdles emerging from those interviews are as follows.

Consumers' perceptions: There is a widespread opinion in the industry that the psyche of British people is set against equity release products. The main reason behind that from the industry's perspective is the poor reputation of equity release products caused by historical events of mis-selling, which still exists in the market.

"So equity release products acquired a bad image about 10-15 years ago and people still think negatively about them." (FP4)

Another reason for this negative perception as highlighted by industry experts is the misconceptions that consumers have about equity release. They mentioned that consumers perceive taking out an equity release plan as 'giving up' of their home. Primarily because before lifetime mortgages came into being, the type of equity release available to consumers until the late 1990s was home reversion plans. Home reversion schemes allow a homeowner to sell a portion of or the entire house in exchange for a lump sum of cash and a lifelong lease to reside in the same house. This type of product was popular up until the late 1980s, when they began to appear unsafe and acquired a bad reputation. The market since then has made the environment consumer friendly by introducing stricter regulations and by introducing a number of product options categorised under lifetime mortgage to suit consumers' needs. Nevertheless, the negative perception still exists as suggested by the following excerpt:

"*A lot of people when they think about equity release think about the old home reversion plans and their perception is that equity release is giving up the ownership of your home, which obviously, probably 99% of ERS now sold being lifetime mortgages that is no longer the case.*" (FA1)

People's attitudes towards acquiring debts in old age is another perception-related hurdle that the market faces. People in general are not comfortable in securing debts in later life.

Even though there are both sale and loan models available under the spectrum of equity release products, the most popular one is lifetime mortgage, which involves releasing home equity through debt. This may not appeal to consumers especially if there are other ways of meeting their financial needs available to them.

"There is a bit of negativity around equity release schemes and I think that comes from the attitudes to debts. People have paid off their mortgages and then the idea of getting into more debt does not appeal to many people" (FRIR3)

Further, there is a stigma attached to using equity release schemes, which is both a factor of legacy and consumers' perceptions. Legacy because there is still a percentage of the elderly population who want to pass on their property unencumbered. Although a majority of respondents did not raise this, insights from the financial regulator and a few equity release providers suggest that bequest motives are strong, especially in case of relatively older population (people in their 80's) and therefore acts as a hurdle to the development of the market. Whereas the relatively younger older people, that is people in their late 50's and mid 60's seem more comfortable with the idea of taking out an equity release plan. The following comments from the financial regulator and private providers support the point just made.

"*… The other barrier is that the kind of customers taking out equity release are in their 80's are still clinging to try and leave as much as they can for inheritance, whereas the younger demographics, people in their mid-50's, taking out equity release, they are less concerned about that*." (FP6)

"*There is a set of consumers who are still expecting to pass on the property unencumbered. So the idea of equity release is one which is not landing on particularly fertile grounds with all the consumers at the moment*." (FRIR1)

At the same time, many providers pointed out that the range of reasons for which people used to take out an ERS has broadened in the last few years. One that sticks out is that the number of people using equity release schemes to pass on the wealth to their descendants whilst they are alive has increased. For example:

"*Some people are buying the product to pay their grandchild's university fees and we would see more of those reasons going forward. They are passing on the money that they were going to leave anyway earlier in order to help their grandchildren get on the property ladder or pay college fees and so on*. *We are going to see more of that.*" (FP7)

Therefore, the legacy of passing down wealth is indeed a problem for the equity release industry hindering its growth but it is only because of older people's perceptions about bequeathing. Moreover, the fact that by taking out an ERS, the consumer loses the money that they would have liked to pass on does not seem to be a problem for the relatively younger older people. However, the industry does expects to see a shift in bequest related views and weakening intentions to bequeath due to emerging social and political problems in the UK.

Further, the stigma around equity release is also a factor of people's sentiments, which emerges from their failure at proper retirement planning. There seems to be an element of disgrace in raising money through mortgage debts in retirement to support consumption. This further leads to a reluctance from a consumer's side to talk about these products despite their benefits and causes further reputational damages, mentioned one provider.

"*I think there is a reluctance to talk about these products because taking them is seen in the customer's mind as a mission of failure. So you know 'I failed to save enough for my retirement, I failed to prepare properly and now I am here, I am having to turn to my house as the last resort'. So I think the negative reputation also comes out because from a consumer's point of view it feels like a product of failure and not the flipside to that. They have been sitting on an asset which has grown exponentially in all of those years and they can utilise it to make their lives better."* (FP4)

The above excerpt also highlights the fact that people tend to view housing wealth as a 'last resort'. On that front, stakeholders' insights suggest that so far the purpose of equity release has been to serve those customers who have no option but to use their home equity. The sentiment persists in the market and consumers' minds, which is again a perception-related barrier obstructing the take up rates of equity release products and the overall growth of the sector.

Market oriented barriers: In addition to the barriers motivated by consumer perceptions, the interview schedule also produced stakeholders' viewpoints that indicate the presence of obstacles caused by the current marketing and distribution channels, funding restrictions and cost intensive product features.

Current marketing and distribution channels

From a provider's perspective, the way in which equity release schemes are promoted in the current market scenario is a problem because of the following reasons. In the current market scenario, customers do not deal directly through product providers. Instead, they go through a specialist equity release financial adviser who explains product features, ensures that there is a real need for equity release in the particular case and liaises with a lender to provide the contract. In this entire process, the first point of contact for a consumer seeking to purchase an equity release plan is the financial adviser. Therefore, it has been left to such financial advisers to advertise and provide accurate information on the products.

"A lot of the distribution models we have running in the market at the moment keep a lot of information behind the advice payroll …" (FP4)

Apart from few leading financial advisers who own approximately 50% of the market share in terms of 'equity release advice', the size of other advising firms is small. In view of some providers, these small advisers' firms do not create the desired impression about

equity release products on a consumer's mind and often prove inefficient carriers of information causing information asymmetry:

"… In the present time, equity release schemes are sold through financial intermediaries and advisers, so it has been left to the advisers and the brokers in the market to advertise this product. Well with all due respect, when you have small firms marketing, they are not good marketers! so getting some big brands out there in advertising, I think is crucial." (FP7)

The other problem is the shortage of financial advisers who specialise in equity release products as suggested by the following excerpt.

"*If you take the distribution model of equity release that is 'how can customers buy it'. Well, financial advisers sell it rather than directly through, if you like the equivalent in mainstream it is retail banking. So if you look at how many financial advisers in the UK are active in equity release, it is not a very big number. If you break that down to who are those advisers that do it every day, meaning all they do is to be an equity release adviser, is actually probably no more than 400 advisers in the UK. Now there are many more financial advisers that do have equity release commissions but whether they are active or not i.e. they have actually done business on it historically, the numbers would suggest probably not.*" (FP1)

The above quotation also indicates that there are in fact qualified equity release advisers who are not actively engaged in the market. There seems to be a combination of reasons to it. A combination that involves poor reputation of equity release products and the vulnerable nature of older consumers. A further analysis of the data supports this argument:

"Those who do hold equity release advice qualifications, I think a quarter of them advise on the product. So a lot of people are getting the qualification but actually not advising on it. I think advisers are caught on to that negative reputation aspect and think that it could be a risk to them and their businesses." (FP5)

Moreover, few specialist advisers operate in the market because marketing equity release products is a costly affair and a long process. Hence, the cost of acquiring new customers is high, especially when alternative markets allow cheaper ways of securing new customers:

"*Most people are attracted to this market through direct marketing, which is expensive and takes a long period of time. If you are an adviser and you are spending £100 in marketing, why would you spend that on equity release when you can get business far faster and at a lower cost?"* (FP8)

Funding restrictions

Under a lifetime mortgage, the provider lends a sum of money to the borrower, which equals some proportion of the borrower's house value. This proportion depends on the age of the borrower. For example, under current market practices, a person of 60 years of age tends to receive 18-25% of the house value, rising up to a maximum of 45-50% at higher ages. Now, the lender secures the sum of money disbursed under a lifetime mortgage plan

either through their own sources of funds (internal funding) or through external sources (external funding).

By nature, a lifetime mortgage does not require customers to make any repayments and the loan keeps growing at a fixed rate of interest until contract termination. The contract terminates only when the customer dies or move into a long-term care home and therefore the term of the contract depends on longevity making it uncertain. Financial experts in the industry recognise this type of product as a good investment for providers of lifelong annuities. An annuity is a pot of money that an individual commits to the life company in order to receive regular income later until death. It is a liability for the life company that is highly illiquid, comes with an uncertain maturity date and yields fixed guaranteed returns for the customer. Most life companies hedge this liability against an asset of similar nature, which would grow over a long-term such as a lifetime mortgage. Currently in the equity release market, there are more providers with external funding than life companies dealing in both life annuities and lifetime mortgages.

At present, funding for equity release products is subjected to capital regulations imposed by Solvency II under the 'Prudential' regulations. Solvency II regulations are stricter and requires funders to hold 100% of the value lent in reserve. While it may not be a problem for those funded internally, it does not work in the interest of distributors relying on external funding. It makes the process of providing an ERS plan expensive and restrictive.

"If we want to give somebody a 100000-drawdown facility and they only want to take out 10000 and dip into the rest at some point later when they wish, the product allows them to do that. But as a funder, we have to hold the entire 100000 as capital requirements. It is just sitting there, we can't invest it. Therefore, it makes the 10000 taking expensive and secondly, it becomes very restrictive." (FP7)

"Those who are internally funded I think they haven't had as a harder time with the Solvency II regulation whereas it has been a quite difficult stretch for us… We have to wait for external funding approvals to come through from the PRA and things like that make it a bit of a harder stretch for us and put more constraints on us". (FP5)

Further, many interviewees noted that current capital regulations restrict the risk taking appetite for funders and therefore affects the maximum loan to value ratio offered as a loan amount. The low risk appetite also restricts the extent of product innovation.

"…because if the funding were different you could have got lower interest rates, higher LTVs and more flexibility" (FA1)

"…life companies are not showing tolerance for wanting to support higher LTV loans. We are near as much as a bigger number as we are in the lower LTV part of the market. Many providers including us provide low interest rate and low LTV but there is huge consumer demand for actually higher LTV and potentially higher interest rate." (FP6)

Therefore, the way in which regulations around funding work in the market is indeed a problem from a supply side. It restrict the maximum loan to value ratio, restricts product innovation and limits providers from offering equity release at flexible terms. However, it

is a much bigger problem in terms of addressing consumers' needs. With the ongoing social and demographical changes, the need of the hour seems to be to introduce product features that can support incomes in retirement. In the light of the quotations from industry experts stated above, it seems unachievable under current regulations.

Cost intensive product features

Lifetime mortgages in the UK come with a guarantee that states that the extent to which consumers repay the accrued loan at the end of the contract should be limited to the value of the property at that time. This guarantee also known as the no negative equity guarantee (NNEG) is not a regulatory requirement but an industry practice that all members of the Equity Release Council must follow. Since product providers who are also members of the ERC dominate the market, the NNEG in reality is an intrinsic part of lifetime mortgages. While the intention behind including this clause is purely to reduce any losses for consumers, unfortunately it affects product pricing and makes LTV ratios small.

"*I think the NNEG is a powerful customer benefit and I would be reluctant to see that disappear but it does ultimately impacts how the products are priced and the LTVs available."* (FA1)

From the above quote and from the ones to follow, there seems to be a mixed opinion on the presence of the NNEG in the industry. It is mostly because there have been very few cases in the past where the NNEG came into play.

"*I have been in the industry for 20 years, I am not aware if there is ever was a situation where the NNEG was evoked. It is highly unlikely that even with a property crash we will ever get close to the NNEG ceiling. So that's how risk averse we have become."* (FP7)

Yet, it does seem sensible to have it in place especially from a consumer's perspective because it works in the interest of consumers. Furthermore, it adds to the reputational aspect of equity release products by giving them confidence of repaying their debts in their lifetime:

"*They require a NNEG, which at least give consumers that confidence they will not be passing on any debts to dependents"* (FRIR2)

Therefore, on the one hand, it is a form of an insurance for the customer, on the other; it makes the product expensive and unviable for them.

- **Product solutions**

As a part of our investigation, we tested two product strategies across the sample. The aim of the exercise was to seek opinions of experts on the viability of each strategy. The description of each of those product models and a summary of stakeholders' views have been discussed in Chapter 9 of "Integrating Residential Property with Private Pensions in the EU – Final Report 2017".

1.5.3 Summary

Overall, the viewpoints uncovered suggest that the barriers to the growth of the market for equity-release are mainly from two angles. The first angle is that consumers have a negative perception about using equity release schemes, which is a major obstacle to the growth of the market. From the industry's perspective, the factors motivating this negativism are lack of consumers' knowledge of product features and the fact that only a partial value of the house is realised through such products. In addition to those, the pessimism originates from the bad reputation that the market has, the stigma that it carries and from the attitudes to using home equity and increasing debts in old age. The second angle is market oriented and highlights the barriers created by the structure of the market, the rules and regulations under which it operates and cost intensive product features.

Overcoming these would require both greater involvement of the government and from the market participants. Thus, the views uncovered in this report suggest that the market for equity release schemes in the UK is on the verge of some major policy developments. Developments that would encourage more competition, introduce products suitable for consumer needs while overcoming the barriers to the growth of the market.

1.6 Summary of the stakeholder forum in the Netherlands (2017)

Report stakeholder meeting on releasing housing equity – Delft September 21 2017

Participants

Martin Hagedoorn – Product & Business Expert CMIS franchise

Barbara van der Est- Expert geld Consumentenbond

Hans Franke – Thuisborg Finance

Rutger Go – Co-founder Senioren Hypotheek Garantie (SHG)

Raj Sing - Co-founder Senioren Hypotheek Garantie (SHG)

Christian Lennartz - Senior Econoom WoningmarktenRaboResearch, Rabobank

Habib Bouchar - Product owner ABN AMRO

Marcel Waarnaar – Senior wetenschappelijk medewerker NIBUD

Bernhard Wolters – General Reinsurance AG

Alexander Paklons - Algemeen Directeur BNP Paribas Personal Finance

From TU Delft

Professor Marja Elsinga

Dr. Joris Hoekstra

Dr. Marietta Haffner

Brief summary of the main findings of the meeting

The meeting starts with a presentation of Marja Elsinga that describes the preliminary findings of the research project. After that, a plenary discussion evolves around the following four topics:

1. The market for housing equity release products: development, barriers, potential
2. Types of equity release products: advantages and disadvantages, risks
3. Issues of transparency and trust: the role of the government and the regulators
4. Towards a research agenda

The rest of this document will summarize the main findings for each of these four topics.

1. The market of housing equity products

- At this moment, the number of providers of equity-release products and sale-and-lease back constructions in the Netherlands is limited. Nevertheless, the interest in such products seems to be increasing, related to the greying population and the increasing demand for care. Consequently, new initiatives are popping up regularly.
- The Consumentenbond has published reviews of some equity-release projects on its website. However, the comparability of the different products is difficult. A product that meets the criteria of the Consumentenbond regarding consumer protection seems to be lacking. The interest rates of housing equity release products are sometimes much higher than the ordinary interest mortgage interest rates which makes such products less attractive for consumers.
- As a result of the long life risk (often covering two partners) and the house price risk, equity release products are a risky and complex business for providers. Insurance companies and/or guarantee funds may mitigate these risks. Most of the participants believe that the equity release market in the Netherlands will only truly develop if a third party (pension fund, guarantee fund) gets involved.
- The market for equity release products works best in a situation of slightly increasing house prices. However, many housing markets, including the one of the Netherlands, are characterized by strong boom-bust cycles.
- The current regulations regarding loan-to-income (LTI), which have become much stricter as a result of the financial crisis, are limiting the possibilities for older home owners to take out an extra or a new mortgage. Although exceptions to the LTI-rule are possible (*maatwerk*), banks are often reluctant to use this room of manoeuvre. Consequently, many older home owners with a relatively low income and a house that has been paid off are unable to get access to their housing equity.
- In order to solve the above mentioned LTI-problem, a separate set of regulations and norms for older home owners that want to release equity needs to be developed. It may be an idea to connect the strictness of these norms to the reason why a households wants to release housing equity. For example, releasing equity in order to make the dwelling life course proof could be made easier than releasing equity for consumption purposes.

2. Types of equity release products: advantages and disadvantages, risks

- Sale-and-lease back constructions are simpler than financial equity release products and moreover not constrained by the LTI norms. However, with such products people generally don't have the guarantee that they can live in their house as long as they want. Moreover, selling your house and renting it back is an emotional decision for many people.
- Some older home owners use an equity release product as a last resort whereas other use it as a supplement to the pension.
- Equity release products can be considered an integral part of a household's financial planning.
- AIRBNB can be seen as an alternative way of releasing housing equity.
- Constructions in which the purchase of the dwelling is separated from the purchase of the land (e.g. Duokoop) may also be used for the purpose of releasing housing equity.

3. Issues of trust and transparency: the role of the government and regulators

- The concept of an Equity Release Council (ERC) connects well to the Dutch poldermodel and definitely deserves further consideration and investigation. However, such an initiative should not only involve providers but also consumer organizations.
- A guarantee for equity release products might enhance the trust in the equity release market. At this moment, the government and the NHG seem reluctant to provide such a guarantee.

4. Towards a research agenda

Some interesting questions for follow-up research are identified:

- How big is the demand side of the equity release market in the Netherlands? What are the reasons for releasing equity. How much equity do households want to release. All these questions urge for the development of a quantitative survey.
- To what extent is there an interest among the stakeholders in the development of an Equity Release Council?

2 Consumer research - Summaries of the national focus group discussions

2.1 Germany Focus Group 1 (September 2016, Hamburg)

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2.1.1 Introduction

The focus group was conducted as a part of the EU Grant project titled "Integrating Residential Property with Private Pensions". The first 15 minutes were spent with introductions and presentation of the context of the focus group and the EU Grant action. An ageing population and deteriorating expected pensions from the state call for Germans to save for their retirement through other ways. One such way is privately and one possibility we will explore together today is how retirement income could be made available from the property you own. More than half of German households do not live in a property they own but they rent. You are among those that have managed to be homeowners and we are therefore interested in why you are homeowners and how you see your property and explore your views about releasing equity from your property in the form of a liquid income. Towards the end of the meeting we will explain what financial products exist and solicit your views on these.

Participants, e.g. those that saw the advert for the focus group, were asked about their perception of iff – many thought the institute was a financial intermediary. iff was briefly presented to them and participants appreciated the neutrality and consumer interests of who we are and what we do. All participants were eager to learn more about the subject. Before starting the discussions, participants were asked to answer 6 basic general knowledge questions[4] about financial services to assess their level of knowledge and financial literacy (as an indication of their existing interest in financial affairs and personal finance). The correct answers were then quickly provided to them. As a whole, with correct answers ranging from 3 to all 6 and average above 4 correct, the results show that the participants had a generally good knowledge of financial affairs, one similar to the levels of participants in other relevant financial services focus groups run by the iff in the past.

2.1.2 Methodology

The first focus group in Germany was conducted on 8.8.2016 from 11:00 to 13:10 (duration 2h10) at the iff offices in central Hamburg in a meeting room sufficiently large for the 8 participants and two project staff members – a moderator Michael Feigl and an assistant Sebastien Clerc-Renaud (who distributed papers and cases and occasionally added questions). The group met around a large set of tables. Coffee, drinks and biscuits were served. Recruitement of the participants was done by announcements on the iff website, emails to contacts for dissemination, notices put up in supermarkets in 5 areas of Hamburg and an advert was subsequently placed in a regional daily paper (Hamburger Abendblatt) when numbers of applicants remained low. The assistance of consumer organsiations was sought and several German associations representative of the interests of either homeowners or the elderly were contacted for request of support (with little success). In the end, 10 persons showed their interest and on the day 8 of the 10 persons participated in the focus group.

The focus group lasted a little over two hours with one break just past the middle of the session (because of the large content still to cover, this break was limited to 5 minutes only on the participants request). The moderator introduced all the topics to the participants in brief before asking them questions. We adopted the template provided by TU Delft with some minor changes. We collected the signatures of the participants when they arrived at which point we provided them with 40 euros compensation for their time and anticipated effort. A computer electronic recording and completed questionnaires were used to produce this summary. The atmosphere was very friendly and convivial with only 2 persons speeking about personal details to a great extent but in the whole it was balanced. Overrunning of the 2-hour mark was seen by 2 participants as suboptimal and

[4] See Annex for table of answers and questions.

the schedule timings were not always respected due to the conversation flows whicht meant that some aspects in the later sections were covered more superficially as planned.

2.1.3 Data

Table 1 provides the profile of the eight participants based on the answers provided to a short questionnaire completed by them at the end of the focus group. The participant mix comprised 3 women and 5 men, with ages varying between 60 and 82 (80+ (2), 70-80 (2), 60-70 (4)). All but two participants were residents of Hamburg and their property values ranged from €80,000 to €650,000. All except one participant were already retired and 3 participants still had a mortgage on their home. Only two participants had a household income that was judged to be below average. All remaining participants were more or less satisfied with their own financial situation approaching or in retirement. In addition, the following characteristics of the participants was obtained from the discusiions: Two had been civil servants, all but two had a house, all but one were owner occupiers (1 was living as a tenant), many had had several properties throughout their lives, 1 had 5 properties, 3 had acquired property via a building society plan, 3 were particularly interested in ERS, 2 were particularly financially savvy, 3 were judged to be rather wealthy, 2 were more in a financial difficult situation (1 with 5 children and 1 with none); 2 explicitly said that they did not care/worry about their children.

Table 1: Profile of the Participants

Participant	Age in years	Household Type	Estimated range of Dwelling Value (in Euro)	Household Income range
1	65	Couple with children living elsewhere	€500k	Above average
2	82	Single person	€380k	Normal
3	82	Couple with children living elsewhere	€450k and €250k	Normal
4	69	Couple with at least 1 child still living at home	> €650k	Above average
5	71	Single person	€80k	Below average
6	67	Couple with children living elsewhere	> €360k	Below average
7	76	Couple with children living elsewhere	€500k	Normal
8	60	Couple with children living elsewhere	NA	Normal

Note: NA : not available (was not provided).

2.1.4 Findings

2.1.4.1 Home ownership/current housing situation

After asking each participant in turn to present themselves, their living situation and to summarise their journey to homownership, each was then asked to describe the meaning and importance they placed in homeownership. Homeownership was generally reached by the group through contracting a loan with only #2 and #5 not needing to resort to

borrowing and able to provide full equity at the time of purchase of their existing property. One's first property was not always purchased with the intention to occupy it as their home, with almost half having done so to receive rental income at the time.

The reasons for owning a property in Germany were not generally based on early pressure to occupy one's own home (neither out of tradition, cultural expectations or lack of affordable rental opportunities) but more a mixture of securing a home for the family and a sensisibility to reduce the rental obligations in old-age when no longer working. Participants did not for example mention the future value appreciation of owned property as a reason to purchase it. Despite the mentioned emotional attachment to ones owned home by several participants, home ownership was deemed more beneficial at the time of old age than as offering better living arrangements throughout their working lives. For example: *"It was very important for me to know that I am able to save on rent outgoings in retirement in case I have to live a moderate lifestyle later on"* (#3).

The participants did not opt for homeownership at the price of a heavy level of indebtedness. Building up a house deposit was mentioned as a pre-requisite and acquisition of their property was achieved by the group at a relatively advanced age. It would appear that homeownership was often the reflection of opportunities that opened up due to a successful job situation and saving behaviour rather than the result of a planned objective at the outset e.g. the story of one participant (#4) was illustrative of the general late acquisition of one's first property in Germany: *"I moved to Hamburg for my career, and as a young engineer I could not buy a property straight away and had to be patient"*.

While homeownership was generally acknowledged as an aspiration by the majority of the participants, this was expressed as a more distant and vague goal for their lives even if some participants expressed the emotional attachment to one's own home as a more immediate objective e.g. #8 had a very strong motivation to purchase property for his children, but also because it was a financially worthwhile investment (and mentioned his plans to buy additional property this time in Hamburg). Homeownership was not seen by all participants as synonymous to own occupation of the property, but as the case of one person shows, some households did have specific plans in their property acquisition strategies. E.g. one participant whose first property bought was a flat which he rented out (and for which he reported problems with tenants), then had a house built with the intention for his children to live in later. He also later built a second house which he rents out but which he built with the intention to move in with his wife at a later stage – with purposeful construction undertaken with their old-age condition in mind: *"I had the house built with wider doors and all on one floor etc.. so it would be age-appropriate for us when the time came (Altersgerecht)"*. (#4).

When asked to assess their past decision to become a homeowner and satsisfaction of their housing situation today, answers are typified by that provided by one participant (#3) who had decided to purchase a small flat because she wanted to leave her parent's home and her civil servant status and savings allowed her to do so. She then later bought a house: "I have no regrets in buying my house" (#3). Only one person had reservations about whether he would do the same thing again: A male participant who was living in socially rented accommodation as a pensioner, acquired both his rather modest properties (1 multiple dwelling house and 1 weekend house) through auctions at an affordable price, nevertheless looked back as foolws: "overall, I see the purchase of my holiday home outside of Hamburg as a bad experience. I am now in a situation where I live on a basic level of income" (#5) (identified as being due to a small pension, sporadic rental income from it and costs associated with owning the property that he had not anticipated).

One participant and flat owner especially mentioned that she had underestimated the extent of "nebenkosten" (maintenance and running costs of joint ownership for building works) and warned of the dependence on other owners for such financial decisions. (#2- owner of two flats (one acquired when she was 62 the other when she was over 75 - 5 years ago). With hindsight, the location and related factors of the property owned would

also be assessed differently as expressed by one further participant who was asked to look back when he said *"I had never assessed that I would one day not be using a car… so for me, access to public transport is important to take into account because I now realise that I may not always be able to drive"* (#8).

2.1.5 Pensions and retirement Income

It became apparent from the beginning of the discussions with the group that all were directly interested in the subject of the focus group and that two specific target groups of homeowners could be identified: The households with substantial assets and a relatively good income (the majority of which had more than one property to their name), and those households where their housing asset was the main form of asset they had and whose financial situation could generally be described as tight. A further aspect that quickly became apparent was that all participants had an over proportionally expressed interest in residential property (not just the own they lived in) that they kept for their entire life until now. This may be a Germany specific characteristic that one may not find generally replicated across the rest of European homowners. From the early parts of the focus group it already became clear that participants had a high emeotional attachment to their housing asset. From the way they described the property in which they lived, and the way they spoke about the financing of it many years before, and how they generally explained aspects and their relation to their property, it was clear that they were very proud of being homeowners.

Degree of reliance on different sources of retirement income

To understand how prominent housing was as a positive influence on their income levels, participants were asked to rank the sources of income they currently have by completing the options mentioned in Table 2.

Table 2: Source of retirement income in terms of importance

	Count of Participants	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
State Pension (*AOW*)	7	4	2		2	
Occupational Pension	3		1	2		
Private Pension Insurance	3		2	1		
Housing (the house you live in)	3	1	2			
Family						
Other Properties (rental income)	5	1	1	3		
Social Benefits	2	1			1	
Other	3	1	1	1		

Note: 1 for highest proportion of retirement income and lower rankings accordingly. One of the options "saving on rent" was not clearly understood on the sheet by a couple persons and needed explanations.

The results of the ranking provided by the participants reflect both the typical high importance of the state pension as well as the income situation in retirement which largely depended on the income generated from additional property being rented out and the actual value of owner occupation in terms of saving on rents and future rent increases (i.e. a not insignificant share of other assets beyond their residential property). The results show that non-housing assets (with the exception of occupational pensions) play an important role in determining the financial situation of these households at retirement and that reliance on the main housing asset in which they lived only partly helped their situation. No respondent identified the family as a source of income in retirement which

suggests that this current generation do not count (or expect) any assistance from their children.

Satisfaction with current retirement income levels

Having a better idea of the overall income situation of the participants, they were then asked questions to gage how happy they were with their current retirement income (compared to what they expected) and how they expected this to develop. Most were satisfied with their living conditions and lifestyle today and have no regret with their decision to buy the house. All participants except one did not compare their retirement income negatively compared to their income during their working life and all but two (#5 and 6) said they were unsatisfied with their actual income level in retirement. Sales of property that persons undertook were not motivated by the reason to generate income but generally to buy another property instead. No participant expressly mentioned fears or worries about future income levels, mainly because they felt that state pensions were high enough to support their lifestyle (even if two persons stated that they were living on a restricted budget and one specifically stating: *"I am in a much worse situation than I thought I would be 30 years ago"* (#5). In general the following statements reflect the current satisfaction with current retirement income levels, which may suggest the urgency and level of need to release equity from their home out of necessity as rather low: *" I live much better than I imagined"* (#1 - a civil servant having had no difficulty getting a loan and living off a comfortable pension); *"I am better financially than I expected but I had good expectations to start with and I had longing for homeownership"*. (#4) One of the most financially saavy participants who owned a property in Schleswig Holstein (a county adjacent to Hamburg in the North) also confirmed the relative comfortable situation in terms of retirement income: *" I am better financially now than I thought I would be"* (#8).

A further comment received showed that even if individuals plan carefully, there are still suprises that affect their income situation within their home ownership strategy, i.e. one rather wealthy participant stated that she lives as she expected to at her advanced age. She had planned the costs of living in old age and made calculations so she was not surprised and found homeownership had been beneficial and would do it again *"However putting money aside for big works was more than I imagined"* (#2).

Nevertheless, some participants expressed a desire to explore the options of equity release because of their weaker income situation. One said that he had paid little attention to retirement, but having spent many years unemployed, his house had become very important to him*: "I did not think about retirement in my thirties, only later and gradually"* (#6). He also added that while he had benefited from inheriting some money from his own parents, his time spent unemployed nevertheless constrained him to describe his living standards as modest. A further participant with his two children completely independent, felt that he was not that satisfied with his current retirement income despite judging his state pension as sufficient: *"I live better now than I had thought I would… but I I would like to spend more time abroad than I can afford at present"*. (#7)

2.1.6 The role of Housing Equity and options

The following large section of the discussions then focussed on housing as a source of income. This was explored first by gathering information on attitudes to forms of equity withdrawal by soliciting relative advantages and disadvantages of various options, followed by exploring the personal preferences of the participants and the extent to which these would be considered viable options by them if circumstances created a need for extra income.

Attitudes to forms of housing equity withdrawal (using vignettes for recommendations)

The participants were presented with a vignette to prompt expression which would reveal their attitude to forms of housing equity withdrawal. The case study used was as shown in the box below with however three small variations. The group was split into three

subgroups of participants asked to discuss and then provide their recommendations to the couple on the basis of three slightly different scenario parameters differnentiated by the purpose for which the couple was seeking the income: 1) due to a shortfall of income, 2) due to a need for severe maintenance work to the property, 3) due to the desire for vacation or leisure (split among the participants (3,3,2)):

> An older retired couple (around age 70), without children, lives in a [rather new and well-maintained] three-bedroom detached house in a medium-sized town. They are outright owners of the house (they have already paid off the mortgage). [1] The couple have financial problems / [2] The property is in urgent need of maintenance work / [3] The couple have no financial difficulties but would like to have more disposable income to allow for longer vacations. The retirement income of the household is insufficient to meet additional expenses. The couple is thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following five options:
>
> - Sell the house and move to a rental dwelling;
> - Sell the house and move to a smaller home ownership dwelling;
> - Sell the house and rent it back (sale- and lease-back);
> - Stay in the house and use a financial product to extract the housing equity (either as a home reversion or a reverse mortgage).
> - Let out part of the dwelling

Table 3 shows the results of the ranking of the options regarding releasing equity from their property.

Table 3: Ranking of options for equity extraction for various reasons

Options / Urlaub	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling	4			3	3
Sell the house and move to a smaller home ownership dwelling		6	1		
Sell the house and rent it back (sale- and lease-back)		2	3	1	2
Stay in the house and use a financial product to extract the housing equity	2		3	1	2
Let out part of the dwelling	2		1	2	2

Note: These answers have been aggregated. The answers were provided by three groups based on three slightly different parameter change to the scenario, namely the purpose for the extra cash of the couple in the vignette: Case 1: Insufficient income; Case 2: need for maintenance works; Case 3: desire to travel. The sepearte answers provided can found in the Annex.

In principle, the preferred option for releasing equity as a solution to their income problem was the sale of their property. This was mostly preferred alongside the subsequent purchase of a smaller property (trading down) but also by a large majority (as second best option) to then resort to becoming a tenant in another new home that they would then rent. The solution of opting for a financial product allowing them to release equity was placed in the lower preference categories by an overwhelming majority of the participants on the grounds that they were either too costly, too complicated, or not very promising in their eyes. The option of subletting part of their home was an option that participants discussed very controversially with the formation of two camps: One smaller group that felt that hosting a third party for money would be the best viable option for the couple (across all of the 3 case studies presented); and a group that saw sub-letting as a quasi last option to be considered appropriate (with several participants later specifying that under no circumstances). One participant (#2) was a widower with experience in caring for a loved one in the home and this explained the importance placed on having an extra room in the property she lives in in case full time care is needed (her husband had been

sick and was treated at home for a number of years which led to incurred caring costs for staff).

The generally preferred option to trade down and one advantage thereof was described by one participant as follows: "selling and buying something smaller that is age-adequate is a good option especially if you can also have an extra room for a carer to be able to stay there as it is cheaper than paying for an old-people's home" (#2 - who referred to her experience with her husband when he was sick and cared for at home).

Discussions around the answers provided led to some opinions about the relative advantages and disadvantages of the options based on contextual factors such as location of the property. For example, the supply of rental dwellings in Hamburg was seen by some participants as a problem with rental prices even in the suburbs seen as high. Alternatively, the majority said that in the city it would be easy to sell their property if needed. The group was in agreement that this would be the other way round for properties outside cities (i.e. in those areas it would be more difficult to sell but easier and cheaper to rent). The advice scenario for the couple was sometimes complemented by personal views specific to their own preference. For example, When asked about their flexibility in terms of propensity to leave the home, the following statements were made: *"I could live in the countryside but it shouldn't be a burden when I want to go the theatre in Hamburg once a month"* (#7) *"I would consider moving to the rural parts provided that it has train connections to Hamburg"* (#8). This public transport link was also mentioned by #5 who likes nature but would not want to be far from Hamburg.

Own opinion about releasing equity options

When focused on their own situation, the issue of children was raised and they were mentioned in the explanations of assessing the options by almost half the participants who despite favouring the sale option, would neverthless try their best to stay in the house (2,3,6,8). Below are examples of the more specific answers provided for themselves in the situation in the case scenarios depending on the reason for seeking liquidity from ones house:

Case 1: Income shock (card 2a): #7 and #8 would rather sell the property and rent (to not have the trouble associated with ownership) however #6 would prefer all other options to stay in the house (perhaps because of his low income level). All three did not favour the option of letting out part of the house to strangers (though #6 said *"I would do it for a paying family member"* if he was however forced to move out of his home).

Case 2: Renovation need (card 2b): While the couple was not necessarily advised to undertake equity extraction for the reason of needed maintenance work, #4 and #3 would sell though #4 specified *"unless the renovation was specific for old people adjustments to the home for us to benefit from"*. #5 however would do everything to stay in his home and thus showed interest in ERS options but also considered trading down and renting out a room.

Case 3: Want to have holiday money (card 2c): When asked for their own personal situation, some answers were different to those provided as advice to the couple in the vignette. E.g "the more liquidity I could have, the more time I could spend travelling throughout the year" (#7). #1 and #2 were most happy with the option to rent out part of the property. #1,2 6, 7 would rent parts out so this is a polarising issue since the others would adamantly refuse this option e.g. *"As a 70 year old, you should not let strangers in to your home"* (#8). However, one participant did agree that it was attractive to have a younger person renting out part of the property as they could potentially help around the house as well.

Participants found it difficult to provide realistic reasons why the options are more attractive financially beacuase they said that it would depend on details which were not provided in the scenario (especially regarding the feasibility of the ERS alternative option). But some aspects where further discussed such as the issues of maintenance of the property where one participant in the context of letting out a room stressed *"you should*

look for tenants who can help (i.e. have an interest to) maintain the property" (#2). When asked what they would do in a situation of financial difficulty, one participant said "I would not hesitate to ask my children for financial help first before considering all these options" (#8).

The sale of one's property was mentioned by two persons as something depended on one's own personal situation (health condition and age) (e.g.#7). A few respondents who did not favour the selling option said "what's the point in selling, what would I do with the money?" (#1). Discussions that ensued focussed around a general consensus that financial investments were not generally seen as safe or providing good returns. When prompted to answer the question of whether they would be willing to move, all but one said they would not be willing to move if it meant moving to a more rural location. At least 4 participants mentioned the importance of public transport links and there was a discussion about what was meant by a "rural area" (two cities such as Celle and Lüneburg were deemed by some as quasi-rural and not the equivalent of Hamburg e.g. #1 "In Lübeck after a while there I know every stone, its boring") This highlighted the desire by some to stay in a big city.

When asked how important it was for elderly persons to stay in their house until their demise, all except one (#1) agreed that this was the ideal situation with #3 saying *"I have an emotional attachment and this would be comfortable for me"*. Also, the issues related to moving to a nursing home were not spontaneously raised by the participants despite discussions about worries about health difficulties. Participants did not generally perceive a large risk of rising costs of living should they release equity by staying in their home nor if they were to sell and rent.

In general, the main preoccupation with homeownership was with not having to pay rent rather than wanting to stay in the particular property they owned in itself. While #3 said *"it would be hard as I am emotionally attached to the house"* others also said they would consider it but only if circumstances made them have to reconsider existing arrangements. Almost all said that they were satisfied with their living and financial conditions but 2 participants were living on quite a restricted budget and lifestyle, both had a propensity for the advantages of ERS which they were keen to know more details about (especially since one has no children).

2.1.7 **The role of the family and attitudes to bequeath**

The topic of leaving the house to their heirs was discussed briefly. This was because of the clear views participants had on this issue and due to time constraints and the interest of participants to hear about the ERS products. Participants understood that ERS products result in less surplus value left in the property when the homeowner dies and that this would mean a smaller amount of inheritance. There was no group consensus on this issue. When asked whether they planned to leave their property or money to their children, most did not have such concrete plans though strong preference to leave some form of financial assets behind. Overall participants would prefer to be able to pass on something to their children but this was not a priority for almost half of the group and was only a clear objective for one person who also later said *"I want to but I don't have to. I will not save just for this reason"* (#8). Several participants shared the view that their heirs would be unlikely to want to live in their property should it be bequeathed to them. E.g. *"I believe my children will sell the house after my death"* (#3), or "*We had to do everything ourselves so I do not feel I am obliged to pass my asset on, but I admit that it was easier for me then than it is today"* (#4). The issue was seen as irrelevant for #5 who had no children so there was no concern to keep the house beyond his lifetime. One participant (#6) had 5 children and one was a social case so that any money or asset he would receive would not go to him but to the state. Two statements typify the lack of desire to pass on the full value of their housing asset: *"Anyway, I have no plan regarding my inheritance and am still young"* (#6), and one participant said *"I have no intention to pass on the asset as I will use the money if I can, my kids are doing well"* (#7).

One participant clearly stated that she was not very close to her 3 children and does not want to care for them financially when she said *"I would not have a problem with leaving my children with debts when I am gone… This may sound selfish but I am not saving for my children and if I do not pay back all of my debt, they will have to face some"* (#1). She also said *"I have done enough caring for the household and family over the years and now I want to look after myself"* (this participant had actually inherited some money as well and mentioned owning a life insurance policy worth about €100,000). One of the most financially constrained members of the group (#6), who owned a reasonably sized property in a nice part of Hamburg and had lived there for 15 years (purchased with 10% own equity and a loan that was now almost completely repaid), stated having worries not just for himself and his new partner but also for one of his children who because of past social difficulty was required by the authorities to pay all income above a certain level to the state for past actions. Other than this one participant, the others did not identify the situation or concerns of their children as a factor for their interest in releasing equity from their property. As a whole the desire to leave an inheritance to their children was not seen as a reason for not releasing housing equity for their own consumption.

2.1.8 Experience with/knowledge of any equity release products

Participants appreciated the 10 minutes taken to explain these products to them. They were intrigued and asked lots of questions. None of the participants had experience with using an ERS scheme and all but two had no or little knowledge of the equity release products that were presented to them. The home reversion type of private arrangement between two private parties (Liebrente) was familiar to them but the details of how commercial ERS products work was not. The subject of access to traditional borrowing for the more advanced aged borrowers was not brought up by any of the participants and the issue of general household indebtedness in Germany was not a feature of the discussions (suggesting that existing debt levels are not seen by persons as problematic). The discussions therefore focused exclusively on the ERS products.

While the participants understood the ERS Sale Model (Home reversions) more intuitively, and had already commented on these in the context of previous discussions on options for equity release, the ERS Loan Model (reverse mortgage) was much more difficult for several participants to understand e.g. the way that interest and debt built up over time. Two participants mentioned at various times that because the current interest rates for mortgages were very low, they expected the cost of a reverse mortgage to also be attractive. This showed that they did not realise that the interest rates for ERS Loan Model are much higher than those for ordinary mortgages. The lack of providers on the German market may have led to this lack of knowledge of interest rates for these products. When risks were discussed, there was little previous understanding of the extent of risks that such providers take to offer such products (more time would have been required to explain these in detail, and this shows that awareness building on this issue would help consumer s better understand and have more realistic expectations with regard to ERS). Participants however seemed to understand that early repayment charges would also apply to ERS if they should change their mind after having contracted an ERS, and this issue was generally known to them due to large media coverage in Germany with regard to traditional mortgages. Only one participant seemed to be aware of the difference in tax treatment that affects an insurance annuity versus that which affects a credit from a bank.

When asked what they expected the costs for such a product to be, the participants did not know. *"I have read that it isn't value for money"* (#6) said one. When it was discussed what size of income could be expected from ERS on a monthly basis, most did understand that it would depend on the age at which such a product is purchased and the value of the property. All agreed that a monthly income of 10% of their total income from ERS would not be a sufficiently attractive proposition. In contrast, a 20% increase in their retirement income was seen as an amount worthwhile to make it a viable and relevant option. Independent of the type of property, its location or its value, participants broadly said that a 300 euro monthly payment obtain from an ERS would make a material difference to their

situation and would be worth considering. Discussions about what factors could be important for those products to be more popular, one participant said that *"the product had to be fair"* (#4) and another stated "I really find the 60% valuation of the property [versus the market value] as calculation basis as very suspicious". There was not much opinion on the issue of what requirement on maintenance of the property would be attached with the ERS and one said *"it would all be set out in the terms of conditions"* (#6) but no objection was voiced to having such an obligation.

While the discussions did not go into details about the relative costs of the products, exchanges about the pros and cons of the two product types showed that actual participant opinions on these products would be based on specifics of the factors such as the health situation they were in, costs of the product etc. Most time was spent discussing the ERS Loan Model here, the ERS Sale Model could have been given more time.

When the conversation moved away from themselves, and they were asked for which group of consumers such ERS would be interesting propositions, views were shared by participants such as: *"these products are for people who are keen to look into details, this is not for everybody"* or *"it is a product that would be interesting if one had the need for care"*.

With regard to the form of payout that consumers may favour, most participants had the annuity payments in mind when they considered these products, so while the lumpsum may appeal to a few persons the participants preferred regular payments. The combination of large er sums and a regular recurring amount (in th sense of a drawdown plan) was not discussed by the group.

Where to look for information on equity release products:

The discussion then naturally moved on the issue of where one should go for information about ERS. The group agreed that there was little information and some said that it involved time searching the internet to find anything. Various participants mentioned the German consumer centres as an appropriate place for informing oneself about these products (#6, #2, #5) and others said the banks would be best able to explain the details of their products (#4). When prompted to find out who else could help, there was mix of views regarding to the role of the state. Two partcipants were definitely against the state involvement in providing information whereas three persons said it would make sense for official pension information sources to provide such information on ERS as well: *"the state looks after pensions so they should be a good source for such information"* whereas others did not agree with the provision of information from the official state pension services e.g. *"these are entirely private affairs and have nothing to do with the state"* (#1). There was unanimous agreement that there was a need for advice before purchasing an ERS. No participant however mentioned the need to involve heirs in the decision or process of information collection without prompting. One participant added: *"An independent institution like the iff is a good source for provising useful information on the subject"* (#6) and another said that *"specialist lawyers could help"* (#1).

2.1.9 The relationship/integration of housing equity and pensions

When asked to answer the question whether they could see an interest or need for a comprehensive lifelong ERS product, no substantial answers were provided other than vague ones such as *"yes it could be a good idea"* (mainly because participants had already been in the room for two hours and some were getting ready to leave.) Concern over the issue of flexibility of such a combined product was raised by several participants and one said "I'm not sure what my situation will be like in a few years time, how can I know what I want so many years before". As a whole, participants found the idea good but were unsure about the practicalities of such an arrangement.

2.1.10 **Trust in the providers of housing equity release products**

The focus group ended by participants filling in a sheet asking them to assign a trustworthiness score to a selection of providers that could be involved in the marketing od ERS (by asking them to allocate a grade from 1 to 6 on how much they trusted each of these potential providers). Table 4 shows the results of who they see as most trustworthy for ERS.

Table 4: Trustworthiness ranking of product providers

Provider	**Grades given**	**Average**
Banks	3,5,2,1,3,4,4,5,	3.38
Commercial companies	4,1,4,3,5,4,5,5,	3.88
Insurance companies	1,2,3,4,4,3,3,5,	3.13
Occupational pension funds	2,3,2,2,2,2,2,3,	2.25
Government	5,6,3,5,1,1,1,3,	2,75

Note: 1 highest , 2 next highest, etc.

The answers provided reflect the personal opinion of the participants with regard to the respective image they have of the various providers. The group was split between those that had a high level of trust in government involvement in the marketing of these products and those that believed state provision would not work at all (based on the negative opinion of some participants about Riester contracts currently supported by the state). There was too little time left to discuss the roles that should be played by the various parties (providers, government etc.) however based on their answers on the level of trust they have in providers (insurance undertakings and banks receiving the worst average scores) it could make sense for more trustworthy parties to be involved in some way in the development of the market. Because many participants considered the ERS products to be too complicated, difficult to comprehend and insufficiently cost effective, they had difficulty imaging a broad market without changes taking place.

2.1.11 **Additional Observations**

The last questionnaire was then completed to collect information from the participants and then a quick informal feedback round to warp up the meeting was conducted. Comments about how they found the meeting include: *"I have learned a lot"*, *"it is very much an individual, personal topic which is difficult to discuss in a group", "I have been made to think about a lot of aspects that I hadn't thought about"*. One participant already said that he would be interested in a more concrete discussion once the project has produced more concrete products for discussion. The entire content of the meeting was evaluated as consistently informative and highly interesting, although several participants had expected the meeting to be more concrete and information received more tailored to their individual situations (which was not the objective of the focus group – although highlights the need for such information seminars more generally).

2.1.12 **Conclusion**

Analysis of the focus group discusssions show that the largely retired homeowners that attended were very interested in the extent to which the home in which they live (or in the case of one participant which they own) could contribute to their income situation in

retirement. While many of them could rely on a healthy state pension as their main source of income, for many the housing asset(s) were a significant additional source of supplementary income already (in the form of rental income and recognised saving on rent payments). While the Anglo-Saxon concept of the property ladder (i.e. progressively moving towards ownership of larger properties with time) was not expressly communicated, in practice such a phenomenon was observable from past behaviour of several participants whereby some had bought a flat first, often selling it to buy the subsequent house. For at least half of the participants, past financial saving products (whether building society plans or insurance policies concluded at a young age) played a very significant enabling role in the their accession to home ownership. As a whole the group did not have a need for additional income to meet basic needs in retirement and the job status during one's working life also appears to have a big impact on opinions about satisfactory income levels at retirement with civil servants reporting fewer difficulties getting a loan and having a more comfortable pension.

From the various equity release options, the majority (before hearing about the details of ERS) saw downsizing as the first preferred option (generally but for themselves as well), closely followed by the option to return to a tenancy status after the sale of their property (more as a general answer than for themselves personally). This suggests that while staying in the property was generally something they would like to maintain, the persons in the group would not favour staying there at all costs. Other than the idea of letting out part of one's property to generate a source of income (seen by some participants as a non-option), homeowners were open to the various possibilities of releasing equity as a source of income to better their lifestyle in retirement and confirm that they would consider an Equity release scheme (ahead of the sale and lease back option). The overall group receptiveness to the idea of using ERS products was however later conditioned on the need to have more specific details before actually being able to say whether this was an interesting option for them or not (on a cost efficiency basis).

As a whole, the strong emotional attachment to their home, expressed by a minority, did not represent an obstacle for individuals to consider using them for income generation through equity release, especially if circumstances forced them to reconsider existing preferences. In fact, the majority of the participants were in favour of selling their home and also buying other ones. This is in line with the main preoccupation noticed in the motivation for homeownership which was largely expressed as having not to pay rent rather than wanting to stay in that particular property they owned in itself.

Related to personal attachment to the property as a place of residence, there was also no clear indication of a strong intergenerational trust but a moral preference to leave an inheritance as expected better practice. Mentioned as a factor, the lack of adequacy of the potentially inheritable home for the purposes of the children (location, size etc.) would suggest a favourable support from heirs via an intergenerational acceptance of ERS. The role played by children in their decision-making regarding equity release was not uniform across the group, neither in terms of bequeath nor in terms of asking them for support in times of financial difficulty. While the majority expects that their children will support them in an emergency (including financially) and consider it a given that if they are able to they would want to leave them something behind, this classic template was not shared by all participants. For a few, the importance given to the role of their children was expressly limited. This may suggest why the preferred solution to a financial shortfall was the sale of the property, and why own consumption in old-age was given a heavier importance weighting than the bequeath factor. Lastly, while participants recognised that future generations of pensioners may be in greater need for help than themselves, no specific children requirements for financial help was mentioned by the group - although parents generally said that they would help if there was a need.

The individuals had more or less thought about equity release schemes ahead of the meeting, or at least knew of the existence of products that offer a solution to enable the use of one's housing asset to generate extra income for a better standard of living in retirement. They also realised that they could not carry out the purchase of an ERS on

their own. In fact, many in the room had either considered using an external adviser or had already contacted one (a lawyer). The persons in the group that were the least financially well-off, were also the ones that suggested that the consumer organisations were a good and suitable intermediary to have counselling from on the subject.

Consumers need to be provided with more concrete and specific details about the ERS product offerings than was possible in this focus group. Better information and transparency can help the market develop because scepticism about both the product value for money and the provider reliability or intention is likely to remain without clear explanations about the risks etc. It also suggests that there is a need for centralisation of information and a need to ensure independent advice from a trusted source can be obtained.

Table 5: Results of the general financial literacy questions by participant

Participant **Questions**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Qu 1: What is a pension fund?		x	x	x	x	x	x	x
Qu 2: What is inflation?	x	x		x	x		x	
Qu 3: What is Paypal?	x	x	x	x	x	x	x	x
Qu 4: What is the actual value of the DAX stock exchange?	x	x		x	x	x	x	x
Qu 5: What do you understand under the term guarantied rate (Garantiezins)?	x				x			
Qu 6: Which is greater, child poverty or elderly poverty?	x		x		x	x		
Correct answers provided	5	4	3	4	6	4	4	3

Note: between 3 and 4 multiple choice answers were offered for each question.

Table 6: Ranking of options for equity extraction – 3 reasons: Insufficient income; need for maintenance; desire to travel

Options (Case1: Income in retirement is insufficient)	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling	XX			X	X
Sell the house and move to a smaller home ownership dwelling		X	X		
Sell the house and rent it back (sale- and lease-back)		XX	X		
Stay in the house and use a financial product to extract the housing equity	X		X	X	X
Let out part of the dwelling					XX

Options (Case 2: Need for maintenance work on the property)	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**

Sell the house and move to a rental dwelling	XX				X
Sell the house and move to a smaller home ownership dwelling		XXX			
Sell the house and rent it back (sale- and lease-back)				X	XX
Stay in the house and use a financial product to extract the housing equity	X		XX		
Let out part of the dwelling			X	XX	

Options (Case 3: Desire for travel)	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling				XX	
Sell the house and move to a smaller home ownership dwelling		XX			
Sell the house and rent it back (sale- and lease-back)			XX		
Stay in the house and use a financial product to extract the housing equity					XX
Let out part of the dwelling	XX				

2.2 Germany Focus Group 2 (October 2016, Hamburg)

2.2.1 Introduction

This is the second focus group conducted in Germany as a part of the EU Grant project titled "Integrating Residential Property with Private Pensions". The first was conducted in September, and a third and final one is planned in 2017 with different guideline and objective.

The meeting started with presentation of the context of the focus group and the EU Grant action, followed by introductions from iff and each participant. Participants were asked about their perception of iff and gave some comments, most of which regarded the perceived consumer friendliness of iff.

All participants were eager to learn more about the subject. Before starting the discussions, participants were asked to answer 6 basic general knowledge questions[5] about financial services to assess their level of knowledge and financial literacy (as an indication of their existing interest in financial affairs and personal finance). As a whole, correct answers ranged from 2 to all 6 showing that the participants had a mixed knowledge of financial affairs.

2.2.2 Methodology

The second focus group in Germany was conducted on 25. October 2016 from 19:00 to 21:00 (duration 2h08) at the iff offices in central Hamburg in a meeting room sufficiently large for the 8 participants and two project staff members – a moderator, Michael Feigl, and an assistant, Sebastien Clerc-Renaud (who distributed papers and cases and occasionally added questions). The group met around a large set of tables. Coffee and drinks were served.

Recruitment of the participants was done by announcements on the iff website, emails to contacts for dissemination, notices put up in supermarkets in several areas of Hamburg, flyers distributed outside a busy underground station at Monkerbergstrasse, and dissemination via the Hamburg consumer centre (via their email service and via word of mouth in counselling sessions with consumers). Special effort was expended to obtain a sufficient number of participants as experience during the first focus group showed that this was not an easy task. In the end, 10 persons registered their interest for the focus group. One cancelled two days before, whereas another informed us of his unlikely attendance a couple days before the event which he did not end up attending. Therefore 8 persons took part in the group structured interview.

The focus group lasted a little more than 2 hours with a short break in between. The moderator introduced all the topics to the participants in brief before asking them questions. The template provided by TU Delft was used with only minor changes. Signatures of the participants were collected upon arrival at which point they were provided with small monetary compensation for their time and anticipated effort. A recording of the focus group and completed questionnaires were used to produce this summary. The atmosphere was condusive to a good exchange with conversations mainly focused on answers to moderator questions, and some discussions stimulated by content shared by the other participants in the room.

[5] See Annex for table of answers and questions.

2.2.3 **Data**

Table 1 provides the profile of the eight participants based on the answers provided to a short questionnaire completed by them at the start of the focus group. The participant mix comprised 5 women and 3 men, with ages varying between 51 and 69. All except one (owning property in Scharbeutz, Schleswig-Holstein and living in Lower Saxony) were residents of Hamburg (all in the city except 1 in the wider agglomeration). Property values ranged from € 110,000 to over € 600,000. All but one were owner occupiers of their residence. Allowned houses except for one participant who in addition to her house also owned 2 flats. The majority of participants had not yet reached retirement and a minority of participants still had a mortgage to repay on their home. Only two participants had a household income of above average and one participant earned less than an average earner (based on self-evaluation). Three of the participants lived alone, and a majority of the group did not have children. In terms of the level of interest in ERS, a majority stated from the outset their interest in extracting liquidity from their housing asset.

Table 1: Profile of the Participants

Participant	**Age in years**	**Household Type**	**Estimated range of Dwelling Value (in Euro)**	**Household Income range**
1	69	Couple with children living elsewhere	> €600k	Normal
2	65	1 Person	€450k	Normal
3	58	1 Person	€270k	Normal
4	54	Couple with children living elsewhere	€350k	Normal
6*	60	Couple with children living elsewhere	€400k	Above average earner
7*	69	1 Person	€450 - 600k	Below average earner
8*	51	2 Persons	€300k + €110k + €140k**	Above average earner
9*	51	2 Persons	€300k	Normal

*Note: All lived in Hamburg city except #4 (outside city) and #9 (other Länder). All lived in a house. *Participant no. 5, did not turn up to the meeting. Total of 8 participants only despite 9 identified. **#8 had two additional appartments.*

2.2.4 **Findings**

2.2.4.1 Home ownership/current housing situation

After asking each participant in turn to present themselves, their living situation and to summarise their journey to homeownership, each was then asked to describe the meaning and importance they placed in homeownership. Homeownership was generally reached by the group through contracting a loan and most houses were already paid for. The majority had bought their property with a significant share of own capial, with one participant able to provide full equity at the time of purchase (i.e. not needing a credit) and several needing a loan to cover at least half the purchase price. Other financing models included a

combination of life insurance and credit. The values of all properties have increased since purchase, due to market developments, as well asb through improvements and investments made during the period to add value to the property (i.e. modernisation and renovation works).

The reasons for owning a property given by the participants of this German focus group were not generally based on early pressure to occupy one's own home (neither out of tradition, cultural expectations or lack of affordable rental opportunities) but more a mixture of motivation for securing a home for the family and a sensitivity to reduce the rental obligations in old-age when no longer working.

About half of the participants said they wanted to prepare for old-age and secure an income (or home), whereas a significant minority admitted that they had not given much thought to retirement when they had been younger. Accordingly, reasons to seek home-ownership included the desire to *"live in one's own place and to have sufficient space for the family"* (#1). This same participant specified that in order to do so, they needed to acquire ownership but also mentioned that they anticipated rising rents and had the desire for stability. Further reasons for homeownership that were given included a desire to live in the countryside, invest their savings into a housing asset and to determine one's own living conditions and to be independent of landlords or the danger of possible cancellation of tenancy contracts. Most participants thus mentioned reasons linked to security, to obtain something of stable value, to invest money in a smart way, to provide for an extra income through renting out of the property (e.g. #3 and #4) and as security against inflation (#6).

While a number of participants indicated a strong emotional attachment to their house: *"With rental flats one is always restricted; I did a lot of renovation myself, so I also have a strong emotional bond."* (#2); *"Of course, there is also an emotional side to owning one's own place; I have also invested a lot of work into my house recently"* (#1), other participants noted that it was important for them to own something, but not necessarily that specific object they owned right now (e.g. *"A bond exists more regarding property, but not specifically this one"* (#6). Overall, most participants were willing to sell some of their financial or housing assets to generate income to maintain their current living standard and in some cases, to move to assisted accommodation if health problems or other financial difficulties occurred and made this necessary. One participant however, expressly stated that they did not want to move out of their house but also wanted to leave an inheritance behind, which is why she considered ERS especially interesting for her situation. A further particpant stated *"I will try and keep the house as long as possible"* (#6) to be able to live in it, whereas another one said they would sell the house to keep a good living standard which was one of the reasons she obtained the property in the first place (#4). One participant also said that it might be necessary to sell the flat she owned as it might not be fit for old-age and as she might need assisted accommodation later in life.

2.2.5 Pensions and retirement Income

It became apparent from the beginning of the discussions with the group that there was a link between decisions to buy a property and pension strategy with the majority considering it sensible to acquire housing property either because it was the *"Best investment for stable value"* or as security to prevent old-age poverty. Because most participants stated to have bought their houses due to a mix of private preferences as well as security reasons, most of them did not give a lot of thought on how to extract equity from their property except through the sale of the property if necessary (see 2.2.6). Despite a visible high emotional attachment of participants to their property, some still had a matter-of-fact attitude towards their assets (*"To the one flat, I am attached a lot, to the other not at all, to the house somewhat – but I would sell all three properties … to buy a nice house."* (#8); *"I look at it as some kind of old age security, or pension. Times are getting insecure (..). And I have a strong emotional bond to my house."* (#9). A majority had not given too much thought about the future or their time in retirement.

When this issue was explored further, some said they expected their income to be stable, although some had at one point started to try and prepare and secure their future income in retirement. One participant (#7) stated that while she had expected a good income in old-age, she had since become divorced and was only able to count on a very small pension. However, the property was still there for her to count on.

Degree of reliance on different sources of retirement income

On the subject of pension provision and income situation at retirement, the moderator then went on to ask the participants to explain to what extent they would value living in/owning their own property with respect to their finances. Most participants valued their housing asset as an existential part of their income situation either as a shield from particularly high market rental prices (by #1 and #2) showing awareness of the advantages of homeownership in termes of stability by emphasizing that by currently occupying their property they thus thus did not suffer from currently high rents in Hamburg as testified by two further participants "*If I didn't own this property, I would otherwise not have enough net income as a freelancer*" (#9) and "*It is really important for me to know I do not have to pay any rent*" (#8). One participant with more than one property (#3), also summarised the value she saw in the independence obtained from rental free living but that that it their case, the rental income from the adddtional property allowed her to pay for her own rent right now, which gives her flexibility in where she is able to live. The awareness of the saving potential of being an owner occupier was even quatified by one participant (#6) who estimated that living in their property amounted to 50-60 % of their disposable income was money they were able to use for spending. One participant explicitly refered to her property in Hamburg Harburg as specifically meant to be sold to enable her to move to a small and cheaper rental flat one day in the future.

To further understand how prominent housing was as a positive influence on their income levels, participants were asked to rank the sources of income they currently have by completing the options mentioned in Table 2.

Table 2: Source of retirement income in terms of importance

	Count of Participants	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
State Pension (*AOW*)	7	4	3			
Occupational Pension	3		1	1	1	
Private Pension Insurance	2			2		
Housing (the house you live in)	5	2	1	2		
Family						
Other Properties (rental income)	3	1	1			1
Social Benefits	1			1		
Other	5		3		2	

Note: 1 for highest proportion of retirement income and lower rankings accordingly.

The results of the ranking provided by the participants show the very high importance of the state pension and mirror the general statements they provided on this topic. Accordingly, 5 of the 8 persons considered their homeownership tenure as a crucial part contributing to their income plan for retirement. Housing was acknowledged as an even greater source of income for three additional participants being or planning to be landlords when they indicated that income would be generated from property being letted out. Occupational pensions were not reported as being significant and private pensions were only reported as a source by two persons (and in third place in terms of significance only). Interestingly, nobody acknowledged the family as a source of income in actual or forthcoming retirement. This shows that state pensions and housing are the main elements for retirement provision for the group as a whole.

Satisfaction with current retirement income levels

Around the 30 minute mark, discussions moved on to adequacy of participants' income levels in retirement (today or at the time of retirement). When participants were asked to look back and assess their past decision to become a homeowner and their level of satsisfaction with their housing situation today, most participants were satisfied with their current situation. In general, anticipated price increases in their housing investment was not the main motivation for the decision to be a homeowner as exemplified by one participant when she mentioned that she had not expected house prices to rise as much as they have in recent years and thus described her financial situation as better than she had imagined it would be. Initially not having given much thought to old age, she started making plans for retirement after a friend lost their job: "*I started thinking about it and knew I had to arrange something. (…) That's what influenced my decision to buy something. And the developments are very good"* (#2). Another participant said "*For me it was always important not to be poor in old age. (…) I have always tried to secure an income for old age, thus one needs to have assets. Now, it looks very good."* (#4). The few participants that assessed their current retirement situation as worse than expected mostly gave private reasons such as divorce or health problems. However, these participants still considered it a good thing that they owned property as a factor of security and source able to alleviate difficulties. Below are example sof the answers provided: "*When I was young, I expected to have a very good income in old age. We had our own business, however, we got separated and all, so now I only have a very small pension. But the house is still there*." (#7); "*When I look back, I have expected things to be better, however, I am very glad that I have managed it and overall, I have a positive attitude*" (#3); "*With the property I am currently repaying, I have a security for old age, so I am very happy that I bought it. Thus, without looking at the future through rose-tinted glasses, I am optimistic*" (#9); "*I am more concerned about work. I will have to work to the age of 67, so I want to try and quit earlier and see if I will have enough income. Because all my life I have only worked*." (#8).

The moderator again asked participants to assess to what extent their currents living standard approached their idea of a good life. Most participants expect things to become more difficult in old age, especially over the years and all broadly confirmed that it was an important objective to keep their current standard at today's level. One participant was more flexible by saying that she gave priority to staying in her home instead of affording a lot of other things, while also saying that "selling the house would be an option if I had to move to a care home" (#2). One participant (#3) stated that her attitudes towards financial matters had changed due to health problems she had experienced and that as a result she highly values her property as a means of security. Another (#6) expects to be able to keep his current standard and would otherwise deploy some financial assets if necessary.

2.2.6 The role of Housing Equity and options

The following large section of the discussions focussed on housing as a source of income. This was explored first by gathering information on attitudes to forms of equity withdrawal through group discussion and the below presented case studies which were to be answered with respect to what they would recommend as preferred courses of action to someone else. Subsequently, participants were asked to indicate which of the presented options would be considered viable by them if circumstances created a need for extra income.

Attitudes to forms of housing equity withdrawal (using vignettes for recommendations)

The participants were presented with a vignette to prompt expression which would reveal their attitude to forms of housing equity withdrawal. The case study used is shown in the box below with three small variations. The group was split into three subgroups of participants asked to discuss and then provide their recommendations to the couple on the basis of three slightly different scenario parameters differentiated by the purpose for

which the couple was seeking the income: 1) due to a shortfall of income (scenario given to 3 participants), 2) due to a need for severe maintenance work to the property (given to 3 participants), 3) due to the desire for vacation or leisure (given to 2 participants):

> An older retired couple (around age 70), without children, lives in a [rather new and well-maintained] three-bedroom detached house in a medium-sized town. They are outright owners of the house (they have already paid off the mortgage). [1] The couple have financial problems / [2] The property is in urgent need of maintenance work / [3] The couple have no financial difficulties but would like to have more disposable income to allow for longer vacations. The retirement income of the household is insufficient to meet additional expenses. The couple is thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following five options:
>
> - Sell the house and move to a rental dwelling;
> - Sell the house and move to a smaller home ownership dwelling;
> - Sell the house and rent it back (sale- and lease-back);
> - Stay in the house and use a financial product to extract the housing equity (either as a home reversion or a reverse mortgage).
> - Let out part of the dwelling

Table 3 shows the results of the ranking of the options regarding releasing equity from their property.

Table 3: Ranking of options for equity extraction for various reasons

Options (number of each ranking order)	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling	2	1	1	3	1
Sell the house and move to a smaller home ownership dwelling	5	1	1	1	
Sell the house and rent it back (sale- and lease-back)		2	1	3	2
Stay in the house and use a financial product to extract the housing equity	1	4	3		
Let out part of the dwelling		1	1	2	4

Note: These answers have been aggregated. The answers were provided by three groups based on three slightly different parameter change to the scenario, namely the purpose for the extra cash of the couple in the vignette: Case 1: Insufficient income; Case 2: need for maintenance works; Case 3: desire to travel. The sepearte answers provided can found in the Annex.

Overall, the overwhelming preferred option for releasing equity as a solution to the couple's income problem was to sell the house and move to a smaller dwelling while maintaining home ownership status (63% i.e. 5 of the 8 participants gave this as their first choice option (rank 1)). Participants thus seemed to generally acknowledge the value of maintaining homownership status after equity release. The second most often stated first ranked option (twice) was that of selling the house and moving to a rental dwelling instead of buying a new property, whereas one participant recommended option 4 (stay in the house and use an ERS product to extract the housing equity) in first place. Overall, with the exception of trading down (option 2), this ERS option was recommended the highest, as it was chosen 4 times as second best option (rank 2), receiving the second most frequent number of votes as option among all options.

While selling one's property to extract liquidity seems to be a natural first choice, most particpants in this case would prefer the couple to then acquire ownership again. This however only applied if occupancy of the property was given up. For those that considered a sale-and-lease back option whereby the couple remain as occupants of the property, this received the second lowest average ranking score (lowest being the option to seek tenants/cohabitators by subletting part of the property). This is in contrast to the ERS

financial product option that by being chosen as second-best option four times and third-best option three times, suggests that instinctively this option is not seen as the last resort and that participants recognise the opportunity and value of being able to stay in their home while receiving cash.

In the discussions surrounding their answers, a majority of persons were strongly opposed to the option of renting out part of the property, as they personally did not want "strangers" in their home. Likewise, two participants (#3, #6) felt that sale-and-lease back was a non-option, stating that they strongly identified with their status as owners of the property and thus considered it strange to rent back their own (former) property. One participant (#1) nevertheless contemplated the option for the couple, as it again would enable them to stay in a familiar environment, adding that a home reversion with security of tenure would be attractive depending on her age.

When the answers are analysed by the three motivations behind the equity release, one notices some differences (although care is advised in interpretation since the sample sizes are very small and subject to personal preferences of respondednts to the scenarios). For example, the case of seeking cash to meet day to day financial difficulties (Case 1: income shock scenario) showed a unanimous superiority of the downtrading option and complete inferiority of the sale-and-lease back option. This was not observable for the two other scenarios. Cash for maintenance works had no clear preferred best option and only the letting out to a lodger option was seen by all as the worst option. The lack of unanimity was also observed for the case of cash for extra travelling for lifestyle choice improvements, which also suprisingly showed the ERS financial product option as not belongoing to any of their top 2 recommended options.

Own opinion about releasing equity options

As a next step, the moderator asked participants to imagine a difficult situation where equity release became necessary and whereby they would have to consider the options from the vignette for themselves. When focused on their own situation, most participants again chose to sell their property and buy a smaller home (#2, 7, 9), whereas two (#3 and 6) were personally heavily interested in a financial product to extract equity - although while one said he would use an ERS product he also said "*I would still prefer to sell and buy a smaller home over a home reversion (Lieberente)*" (#3). Other participants introduced general considerations about being old and being a homeowner with comments such as "*I consider renting as less exhausting as owning a house*" (#4), joined by #8, who generally preferred trading down to a smaller property while also contemplating a home reversion or a sale-and-lease back scheme as possibilities. # 9 also contemplated moving to a rental dwelling as a 2nd option. Participant #6 then introduced the idea of getting a second mortgage loan on the house, which was also favoured by #7. Because this had not been offered as one of the original options to choose from, #7 then opted for selling and buying a smaller home.

Although most participants already argued from their own perspectives regarding the case studies, during the second discussion, the outcome was slightly different, as more considerations were introduced. Thus, the moderator pointed out that when selling and buying a new home, due to the tight housing market in Hamburg, this might mean moving to the suburbs. He asked how much participants would be willing to pay for a new home, as there would hardly be any possibility to extract liquidity if the new home would be as expensive as the old house (e.g. if situated in the same area, city center etc). Considering these extra dimensions of being able to sell the property and difficulty to find adequate housing by trading down, the general willingness to move away from the existing property was assessed again.

Most participants then acknowledged that it would be difficult to simply sell the property and buy a suitable new place without needing to renovate (e.g. adapt the house to the needs of old-age, #4) or without moving away from the familiar area. Under this context, three of the participants reconsidered moving to a rental dwelling. One participant (#9) still preferred selling and buying a smaller home and believed it should be possible to find

something in the city. He also said that he would not mind moving away as long as there was a bigger town nearby, but nonetheless preferred staying in the same place as long as possible, possibly renting something subsequently. Some like #2 said it depended on the actual (financial) problem and a careful assesemnt of which solution would actually help them best. While she would want to avoid moving away and found none of the other options attractive, she did finally admit that she would if need be settle for renting a flat. Following this more detailed discussion, it turned out that most participants attached a great importance to remaining in a familiar surrounding or even the same area. When asked to reconsider the options on the basis that staying in the same area was the top priority (through important parameters such as the wish to stay in the habitual area, high prices even for small homes, and possible difficulties in selling and buying suitable property), the participants were asked again to indicate which options were the most attractive and profitable. Most participants then contemplated a life annuity arrangement (home reversion) as a viable option e.g. one participant (#4) pointed out that it would be her best option provided she could still handle living in the house and wouldn't want to bequeath, whereas another (#9) pointed out the risk of losing everything in the case that they died prematurely (e.g. after a couple of years), which led her to prefer selling and buying if she could. The participant in favour of an ERS product (#6) repeated that he would prefer this option if a good offer existed rather than the home reversion option. This view was also shared by participant #2 who was not sure about the home reversion option becausee they didn't know enough about the details e.g. about existing models, calculations etc. Participants also mentioned that the option to subdivide and have a lodger required that the property would have to allow for subletting being possible and that enough privacy was ensured, and one said that trading down to a "granny-flat" would be considered combined with subletting.

2.2.7 The role of the family and attitudes to bequeath

The topic of leaving the house to their heirs was discussed only briefly. The moderator asked the participants how important it was for them to leave an inheritance behind and whether they had planned to do so. One replied that "*it is mainly about me using the property… but yes, it would be optimal if I left something behind.. reality is sometimes different but yes, obviously I should try*". To some surprise, all participants with the exception of one did not place a high priority on bequeath. Whereas some stated they did not have any direct heirs (#8 and 9), others (# 4 and 6) said that it was simply not important for them to pass on the property. In the case of two participants (#1 and 3), they mentioned that they would ideally like to bequeath something but one said that her three children did not expect anything and would prioritise their mother's independence and wellbeing in old age (because expectations had been influenced by experience with seeing how a grandparent who needed substantial caring and for whom this cost a lot of money (#3)), whereas the other accepted the possible necessity to adapt to difficult situations (#1). #7, on the other hand, placed a very high priority on leaving something behind, although when prompted she would consider some of the options if she had to.

Appeal of an ERS

When asked to answer the question whether in general they would be interested in learning more about the product or using it, most mentioned that they definitely knew too little to properly assess the desirability of such a product: "*I would need exact information, e.g. on how these products are calculated*" (#8). It was also difficult for them to give precise answers since not all had a pressing need at the current time and that it all depended on future unknown circumstances e.g. "*It could be interesting for me bit I would need more information, not now, but maybe later in life. It depends on how long I still work for etc..*".

Three participants (#9, #4 and another) said that a reverse mortgage would have to be at least as comparably attractive or better than a private life annuity in order to be an alternative worth considering, while two (#6 and #1) thought it generally to be an interesting model but perhaps not in its current form. One mentioned that the price was

probably unfair, and that based on the example shown in the slides, that the 60% limit meant losing 40% of the value and there was no compensation for the risk of inflation (#6). In terms of the size of income an ERS would be expected to provide them with, one participant (#1) would expect a payment of €1000/month minimum for it to be worth considering with their property, whereas another (#3) on the other hand stated that even 100-200 € of additional income would suffice and make a different. She also specified that value for money would be less important than liquidity and said that she would chose a limited duration model (ignoring longeivity risk) since she did not expect to live beyond 85 years of age, and if she did live longer she would not need much money after that age. #4 also pointed out that the product had to be adapted to old people and should thus not be too complicated e.g. "*I should really inform myself now, because when I'm 70 it may be too compliacetd for me to understand*", whereas #2 considered the option personally irrelevant, as her flat was unsuitable for old age (as it was in the 3rd floor);

When asked if they would be interested in extracting a bigger lump sum to be able to afford purchases that cost too much for their income, most participants answered in the negative and stated keeping their current living standard or independence as their main priority rather than for luxuries. Nevertheless, #4 pointed out that a big sum may be useful for a new car or be relevant and necessary for maintenance purposes e.g. repairs in the house, the garden or for a carport.

Appeal of an integrated housing equity and pensions product

When asked to estimate the demand or need for an ERS product to be considered as part of decision-making at a much earlier stage in their lives, most thought it might be of general interest and of importance. Some comments included "*yes, such as 'flexible-pension'option or as part of old age provision strategies*" (#9), "*possibly more now than back then regarding the current and future pension situation*" (#2). A number of participants agreed that such an early stage consideration of ERS would also encourage more people to become homeowners. One confirmed that she would have probably agreed to an ERS if it had been combined with the loan she got to purchase the property. However for themselves, most said they had doubts if they would have found this attractive and a few were very sceptical that younger adults would already want to fix outcomes so far into the future. One participant (#6) commented that when buying a house, he would not be able to make a decision 30 years in advance about whether he would later want to use an ERS product or not, although the option of an ERS would be good to have. Some good questions about flexibility were asked such as: "*would the property to be used for the equity release be fixed from the outset?*" Generally, there was a reluctance or unawareness regarding considerations of old age provision (#6 and 8). One participant (#9) thought such an ERS model of the future would be very good but warned that it would have too be based on realties and not be just theoretical.

2.2.8 Experience with/knowledge of any equity release products

In the following allocated time, the moderator presented some slides explaining the ERS products briefly. Participants appreciated this and more time would have been needed to answer their questions about how such products are designed and how amounts of equity released are calculated. Concepts such as occupancy right were discussed and the two main ways that payments can be made to them (lumpsum or monthly payments) were described. It was not always easy for consumers to understand the difference between the Sale Model and Loan Model ERS in terms of the risk of losing their property. Participants listen carefully when explained how liquidity could be received and how the amount to be used would depend on the size of the equity which consumers were seeking to release. As a whole, the group was not familiar with these products and were not able to identify any providers either past or current. Some aspects relevant for the Loan Model ERS such as early repayment possibilities and the fees attached to exercising such an option were relatively well known to the participants since in Germany these have received large media attention in the context of forward mortgages. Participants were informed of the complexity of the products when insurance elements in the product construction were

mentioned and the topic of risks from the side of the providers was explained (e.g. as they need to hedge longeivity risk).

Some had read some information on the internet but only about the possibility not the details. Participants with greater interest were encouraged to give their consent to be contacted again for the third focus group where more time would be spent on the product charcateristics and details, almost all agreed this would be interesting for them.

Due to time constraints, the issue of where consumers can go to look for and find information on equity release products, was not discussed in the second focus group session. The consumer organisations (the consumer centres active in the whole of Germany) were nevertheless mentioned as a likely source that would be considered for getting more information.

2.2.9 Trust in the providers of housing equity release products

In the context of complex parameters and factors and uncertainties which were summarised again including different tax treatment between insurance and bank based pension products, participants were informed of the range of aspects that need to be taken into account for such an ERS to be suitable for consumers. This then led to the last task of the focus group which ended by participants filling in a sheet asking them to assign a trustworthiness score to a selection of providers that could be involved in the marketing of ERS (by asking them to allocate a grade from low to high on how much they trusted each of these potential providers for the complex nature of an ERS). Table 4 shows the results of who they see as most trustworthy for ERS. Overall, the State and pension funds were seen as more trusted entities than banks, commercial companies or insurance undertakings. Banks were seen as less trustworthy than insurers.

Table 4: Trustworthiness score of product providers

Provider	Grades given	Average
Banks	2,3,4,5,3,4,2,2	3.125
Commercial companies	2,4,3,5,4,4,2,3	3.375
Insurance companies	2,5,3,5,4,4,2,4	3.625
Occupational pension funds	5,6,5,5,5,4,1,5	4.5
Government	5,6,4,7,6,4,4,4	5.0

Note: These grades from 1 to 7 have been recalibrated ex-post to make them consistent and comparable to other country focus group answers. See Annex for original answers. In this table, a score of 7 is the highest, 2 next highest, etc. i.e. grades are based on a scoring from 1 (worst) to 7 (best) (which is the opposite of the ranking questions). In addition, it was not possible to attribute a grade of 1 due to the lowest answer requested being 2 (because of the use of a scale of 1 to 6 instead of 1 to 7).

2.2.10 Conclusion

Analysis of the focus group discusssions show that in summary, most participants considered their property as providing some kind of old age insurance, but have not given too much thought on how to put it into effect. While many of them could rely on a healthy state pension as their main source of income, for many the housing asset(s) were a significant additional source of supplementary income already (in the form of rental income and recognised saving on rent payments). However, most participants do not seem to expect being forced to extract equity from their property out of necessity but more out of choice.

From the various equity release options, the majority (before hearing about the details of ERS) saw downsizing as the first preferred option (generally but for themselves as well), followed by the option to return to a tenancy status after the sale of their property. This

option gained popularity when more of the persons realized that it might not be so easy to downsize and at the same time remain in the same area. This suggests that keeping an ownership status was generally important, however, general living conditions (area, housing situation) became just as important throughout the discussion. As a whole, the strong emotional attachment to their home expressed by a majority, did not represent an obstacle for individuals to consider using them for income generation through equity release, especially if circumstances forced them to reconsider existing preferences. Again, the majority of the participants were in favour of selling their home and also buying a new one. This is in line with the main preoccupation noticed in the motivation for homeownership which was largely expressed as not having to pay rent rather than wanting to stay in that particular property they owned in itself.

Other than the idea of letting out part of one's property to generate a source of income (seen by a number of participants as a non-option), homeowners were open to the various possibilities of releasing equity as a source of income to better (or rather keep) their lifestyle in retirement and confirm that they would consider an equity release scheme (ahead of the sale and lease back option, which some termed as "absurd"). The overall group receptiveness to the idea of using ERS products was however later conditioned on the need to have more specific details and a fair pricing before actually being able to say whether this was an interesting option for them or not (on a cost efficiency basis).

Regarding bequeath of their property, this wasn't a high priority for most participants, either due to a lack of direct heirs or because independence in old age was deemed more important than leaving property behind. Acquired by most as some form of security for old age, most were ready to also use it as such in various forms and thus pressure to bequeath was not an obstacle for the group. This was also true for the two participants who mentioned that in fact they would like to bequeath, when they also acknowledged the necessity to deploy their assets due to financial needs.

In general, most participants considered the introduction of ERS as a good thing, although they did not seem to personally contemplate the option for them at the current time in their lives. Some participants stressed that they would need to be made aware of the exact risks providers were facing to understand the cost of such products, and believe that based on the information they received from the meeting, the product would have to be designed differently regarding the price and additional features.

Table 5: Results of the general financial literacy questions by participant

Participant **Questions**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Qu 1: What is a pension fund?	x	x	x	x	-	x	x	x	
Qu 2: What is inflation?	x	x			-	x	x		
Qu 3: What is Paypal?	x	x	x	x	-	x	x	x	x
Qu 4: What is the actual value of the DAX stock exchange?	x		x	x	-	x		x	x
Qu 5: What do you understand under the term guarantied rate (Garantiezins)?					-	x			
Qu 6: Which is greater, child poverty or elderly poverty?		x		x	-	x			
Correct answers provided	4	4	3	4	-	6	3	3	2

Note: between 3 and 4 multiple choice answers were offered for each question.

Table 6: Ranking of options for equity extraction – 3 reasons: Insufficient income; need for maintenance; desire to travel

Options (Case1: Income in retirement is insufficient)	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling			X	X	X
Sell the house and move to a smaller home ownership dwelling	XXX				
Sell the house and rent it back (sale- and lease-back)				X	XX
Stay in the house and use a financial product to extract the housing equity		XX	X		
Let out part of the dwelling		X	X	X	

Options (Case2: Need for maintenance work on the property)	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling	X	X		X	
Sell the house and move to a smaller home ownership dwelling	X		X		X
Sell the house and rent it back (sale- and lease-back)		X		XX	
Stay in the house and use a financial product to extract the housing equity	X	X	X		
Let out part of the dwelling					XXX

Options (Case 3: Desire for travel)	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling	X			X	
Sell the house and move to a smaller home ownership dwelling	X	X			
Sell the house and rent it back (sale- and lease-back)		X	X		
Stay in the house and use a financial product to extract the housing equity			X	X	
Let out part of the dwelling				X	X

Table 7: Trustworthiness score of product providers (original answers provided by participants)

Provider	**Grades given**	**Average**
Banks	6,5,4,3,5,4,6,6	4.875
Commercial companies	6,4,5,3,4,4,6,5	4.625
Insurance companies	6,3,5,3,4,4,6,4	4.375
Occupational pension funds	3,2,3,3,3,4,6,3	3.375
Government	3,2,4,1,2,4,4,4	3.0

Note: 1 highest , 2 next highest, etc from 1 to 6 (as in German school grades). These results need adapting to make them comparable to other country focus groups.

2.3 Germany Focus Group 3 (September 2017)

2.3.1 Introduction

After a short welcome, a brief description of the course of the discussion and the project contents followed. The moderator refrained from providing a more detailed description of the project because all the participants present had already taken part in one of the first two ERS discussion rounds a year ago. A very detailed presentation of the ERS project was carried out in these focus groups.

Table 1: Profile of Participants

Profile of Participants				
Participant	**Age**	**Household Type**	**Estimated range of Dwelling Value**	**Household Income range**
1	72	single household	85.000 €	below average
2	52	couple without children	360.000 - 480.000 €	average
3	66	couple with children living elsewhere	450.000 €	above average
4	52	couple without children	360.000 €	average
5	66	single household	500.000 €	average
6	61	couple with children living elsewhere	300.000 €	above average
7	68	couple with children living elsewhere	450.000 €	below average
8	65	couple with children living elsewhere	650.000 €	above average

Eight people attended the focus group, whose characteristics are summarized in Table 1. Participants' age varies between 52 and 72. Two of them are singles and six represent couple households. None of the participants have children living in their households. The estimated value of their dwellings ranges between 85.000 € and 650.000 €. Only household 7 with high home equity value, but below average income seems to be "house rich and income poor".

2.3.2 Results of the focus groups within the research project so far

This is followed by a brief summary of the results of the first two focus groups. Both groups had a similar composition of participants. All participants had in common a strong interest in the topic of real estate. As is usually expected in Germany, they had a very close relationship to their property. One of the reasons for this is that they are all quite committed to the issues of repairs and maintenance. The vast majority of the participants were in a better position in terms of income and assets. Some of them owned more than one property. Only a small group - about 4 out of 18 participants - had problems with liquidity.

In particular, two reasons were cited why the topic of real estate pensions was of interest. On the one hand, the case that current income is not sufficient for the desired lifestyle, on the other hand, the possibility that necessary repairs and maintenance work can no longer be financed from one's own returns or is no longer able to do so from a health point of view.

"I don't want to stay in this house either, because it's also becoming too stressful for me. That's for reasons of age, I'll sell the property and see how I'm financially placed and then go to a retirement home."

"For reasons of age, or it grows over your head, the children are out of the house and you can't do it the way you want with 75-80. Either I'll take a smaller apartment or the senior citizens' residence - where you can also buy in."

Except for the model of the sale of the current property and the acquisition of a new, smaller property, all other variants such as a reverse mortgage or the life annuity model were rejected as unsuitable. Many of the participants considered them to be too complex and with an extremely consultative effort.

2.3.3 Preferences related to current ERS models

Discussion of the models: credit model vs. sale model

In a first step, the model of the reverse mortgage was discussed here as well - as in the first two rounds of talks. Many participants in this group did not really have the reverse mortgage model in mind.

"But the crude point was how to use the property as a retirement provision. And then you've been through assorted options that exist, and I don't really know whether or not this has something to do with annuity or not."

"Getting something out of his property, so you might say."

"That's a complex story. That's a lot worse than when I'm doing a home loan."

In this discussion, too, it was again very quickly clear that most credit models were rejected. On the one hand, because some participants are no longer prepared - quite fundamentally - to go into debt again at this age, on the other hand because the product reverse mortgage is too complex, but also because it is to be expected that the reverse mortgage represents the product with the comparatively lowest payments. It was also shown that the sales models were much more widely accepted, although it became clear that the complexity and intensity of consultation of many participants was too high in the life annuity model as well. Most people preferred life annuities over reverse mortgages because it is to be expected that the payments for life annuity models will be significantly higher. Almost all participants favoured the so-called downsizing model. It has the charm for those present that they are "all" able to implement such a model without the need for a great deal of consultation, even if, as discussed, the downsizing model can only be implemented to a very limited extent due to the current rather tense situation on the real estate markets, especially in large cities. With regard to Hamburg or another city in Germany with over a million inhabitants, it means on the one hand that the sale of the current property should not be a problem at all. But buying a smaller and much cheaper property could be a real challenge.

a) Question: As the loan model gives a full ownership over the dwelling unlike sale model, how important it is to continue to have such rights over the home?

In order to anticipate the outcome, ownership of full property rights is not crucial for the vast majority of the group. The retirement of your own property is an exceptional situation anyway. If they have to use their property to create the financial leeway, full ownership no longer plays a central role.

"It's just a formality."

"Has an emotional, but not a factual meaning. For me the question is, if I were a tenant now, what duties do I still have. If everything is contractually regulated, it's all the more practical to live there as a tenant."

"From today's point of view, I'd rather be the owner when I'm 65, maybe it's different."

"It wouldn't mean that much to me either, the question would be what it brings me."

The focus is rather on the respective amount of expected payments. This view is also linked to the fact that many participants in the round assume that if they use a model for real estate annuity, they are also relinquishing control of the property. The topics, insurance, repairs and maintenance were addressed.

b) Question: Assume that you avail one of such ERS products, in what proportion you would like to spend your released home equity?

Table 2 shows that most of the participants, regardless their preference over ERS products, declared that those instruments would be used mainly for family helping and leisure / holidays.

Table 2: Use of released equity

Options for utilising home equity	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Day to day expenditure such as grocery, utility bills	1	1	3	2	1
Medical expenses			5	1	1
Help family members	3	3		2	
Leisure / holidays (vacation, camper, second home etc.)	3	4		1	
Any other purpose (e.g. luxury goods, shares)	1			1	3

Rank 1= highest proportion, Rank 5= lowest proportion
Every cells report the frequency of how many participants have given a specific priority rank.

c) Question: What does a good ERS product look like?

Here it became apparent once again that this question, in relation to the German ERS situation, is currently purely theoretical. There is currently no official reverse mortgage available. The members of the group present have never seen such a model in their lives - in concrete terms - nor have they ever received any advice on this topic. Almost half of them didn't even know this model, the others only from newspaper articles or the internet. The first point "interest rates" was of no use to many because, as always, mortgages in Germany are provided with a fixed interest rate at the time of conclusion of the contract. The following three points were taken for granted. These points should always be met, with or without violations of any guidelines. The item "information and explanations" was also described as self-evident, but not sufficiently comprehensive.

"I also find the counselling quite natural, but I would need several calculation examples for all this, how it looks like in numbers at all to be able to imagine what would be if I drew on this screw or what is the variable that I would pay at the interest rate as a comparison.

"I have the impression it's a commercial poster. As a borrower, I feel too well treated. That makes me a little suspicious."

d) Question: Please rate the below characteristics of good ERS products.

Table 3 shows the participants' opinion on the standards of a hypothetical ERS product. The most important characteristics were information of all costs involved and who will bear them, fixed interest rate, no negative equity guarantee, fair and simple illustration of the product and tax implications.

Table 3: Characteristics of a good ERS: Rating of safeguards

	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Fixed interest rate	5	2		1	
Variable but capped rate of interest	2	2	2	1	
No negative equity guarantee	5	2			
To be able to choose your own solicitor	3	4	1		
Fair and simple illustration of your plan	5		2	1	
Information of all costs involved and who will bear them	6	2			
Tax implications	4	2		2	
Early repayment options	2	3	1	2	
Flexibility to move homes	2	3	1	1	1
Others	3				

Rank 1= extremely important, Rank 4=Non important at all

Every cells reports the frequency of how many participants have given a specific priority rank.

e) Question: What should be a reasonable difference in interest rates of ordinary mortgage (2.5%) and that of ERS-products, given that there are no interest payments and there is no risk of owing money at the end of the product?

Again, the lack of experience of the German participants in the ERS focus groups on the topic of reverse mortgage was becoming apparent. A very large majority responded to this question by saying that they consider an equal amount of normal mortgage interest rate and the interest rate for a reverse mortgage to be appropriate.

> *"It's only fair that what I have to pay for when I buy it, that I give it back to the people in a fair way. Then that's adjusted."*
>
> *"What I have to pay for a loan in terms of interest can also be said in reverse. I don't think the bank had any less risk before. It's registered in the land register with the land charge. I'd say loan interest = reverse mortgage rate."*
>
> *"I think it's object-related, individual. Two percent would be fair."*

Only after a small discussion round on this topic did a majority of people then believe that the interest rate of a reverse mortgage should be lower. In this example, perhaps between 1.5 and 2%.

> *„The reverse mortgage is also fixed for ten years, since the bank has no risk at all. It pays me, if I still live 30 years, a third, because the value is still there, two thirds of the house. If it's financed for ten years, it must be less than 2%."*
>
> *"I would say now, rather less, because the property is worth more, why should you pay more? Now I'm a little in doubt too."*
>
> *"I assume that the bank pays little per month, i. e. the interest rate would have to be lower than 2.5%, 1.5% because of me."*

f) Question: Do you think there should be some fiscal incentive (for example a tax exemption) for people who use ERS products?

A majority rejected the idea of fiscal incentives. This may have something to do with the composition of the group. For many people, the use of taxpayers' money in the real estate pension sector would be a false incentive, as the majority of households would probably be better off. The bad experiences of many households with the Riester pension were also pointed out. A number of experts and the press see Riester pensions as a flop and the fact that the tax benefits, via increased commission fees, have been passed on exclusively to the intermediaries.

> *„Depends on how the tax pays off in the long run. It may also fit without taxes or not fit despite tax savings. I'd do the math to see if it makes sense."*
>
> *"As a pensioner, you have to pay taxes now, yes."*
>
> *"It's not for me. I am comparing this with the Riester pension, which is why only the insurance companies have come up against it. I find it critical."*
>
> *"The issue of poverty in old age is at stake, and the question is whether this might be for those customers who are not so attractive to banks or for those who are retiring, who have paid off their property in the most favourable case, as is assumed here, but who otherwise have too few opportunities to live at a normal level due to the insufficient pension."*
>
> *"I think that only those who do not even come with their pensions will take advantage of this product, and that is why you have to do it under the cloak, which is why I think that the tax incentive should work."*

2.3.4 **Awareness / trustworthiness**

Some ways of raising awareness about equity release schemes include TV and print ads, brochures, a website, social media and face to face discussion regarding pensions and property with qualified staff.

a) Question: Which of these would matter most for you?

In principle, such an idea - the dissemination of information on real estate pensions - was welcomed. It should also be accompanied by the suggestion that it should meaningfully be carried out through personal consultation with a reputable institution (e.g. the pension fund) (creation of confidence). Overall, such campaigns, if they are not just a "flash in the pan", can also sustainably boost consumer confidence in such products. In particular, the information channels Internet/websites and TV were viewed fairly by target groups. They could also guarantee widespread use. The use of the Internet as a medium for news and information was taken for granted by this group. The two channels brochures and social media were classified as rather unsuitable. Brochures would be left in the trash for the most part, unread. And the majority opinion within this group is that the topic of social media as a whole has not really reached the appropriate target group (60+).

> *„For me it is clear that any kind of marketing is actually only about consulting and that is why I would approach the experts who would be interested in including this product in trade journals, stock market magazines or bank advisors, i. e. going into these markets to familiarize them with it, but not to the end consumer.*
>
> *"A large number of customers are being addressed via the Internet, but please provide a little more explanation via the Internet and I think people understand that."*
>
> *"I'd hang that up in the public TV media, watch ZDF or ARD most of the time over 60 or 65, and then I'd kind of dictate counseling at the Rentenanstalt."*

"I would hang that very neutrally. After the experiences I have had with Riester, I wouldn't let the banks go at people, but I would say that you first hang it up on the pension scheme, they also have an insight into the pension and what it means, they can then, so to speak, give advice that people know what they are doing. When people run off on their own, there's only chaos."

"I'd say there should be a neutral agency at the beginning so people know where to start."

"One should bring consumer associations, pension funds on board. It's all about the preserves, it's about our future."

b) Question: Would awareness enhance trust?

Two participants believe that for the creation of trust it is necessary that information is presented in a neutral, serious way and that only good products are offered.

"If it's presented seriously, like the market check, consumer, etc., in any case."

"Trust is built if the banks don't offer anything bad. The market has to surrender first."

c) Question: Below you will find some possibilities for the media distribution of information on equity release products. Please evaluate their effectiveness.

As Table 4 shows, personal contact with a financial intermediary is the most preferred way to get informed and develop trust about ERS products, followed by flyers and thematic web-site.

Table 4: Methods for raising awareness and trust

	Rank 1	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Media, TV, newspapers	2	2	2	2	
Flyers for older homeowners	2	3	2		1
Theme web-site	2	3	2	1	
Social Media		2	5		1
Face to face with a financial intermediary (costless counselling)	7			1	

Rank 1 = extremely important, Rank 4 = not important at all
Every cell reports the frequency of how many participants have given a specific priority rank.

d) Question: Why do you think it is important/not important to raise awareness about the possibilities of releasing housing equity with the help of ERS?

In answering this question, it was frequently pointed out that an increase in poverty among the elderly is to be expected and that it would therefore be important to bring the issue of real estate pensions more to the public's attention. It is unclear, however, to what extent poverty among property owners in Germany is a relevant issue at all. In principle, the topic of real estate pensions can also be of interest to all property owners, irrespective of their financial situation in old age. According to the group, the propensity to consume of the current generation of seniors is increasing significantly. Compared to previous generations of retirees, today's seniors are prepared to spend a large part of their assets for consumption purposes.

"It is extremely important and still far too little, because it affects everyone, everybody gets old. It is indeed a political issue, the pension system is stabilising or it is being reduced further. That's why we're poor in old age, because the pension level is falling."

"I hadn't really heard of it before. I had read that this model also exists in France, which I found quite interesting. I think it's important that there are different models."

"It should be made known to the general public that it can be interesting for certain target groups, not all of them, that you can do something."

e) Question: Do you see any point in involving the State to build trust and establish the reliability of equity release product? Or is it better to leave this to the market itself?

The first question was answered by the overwhelming majority of group members with yes, especially if the EU were involved. On the one hand, it would have a deliberate effect on confidence-building. For many households living in their own real estate, this might be the reason why they are actively involved in real estate pensions. In principle, it would not do any harm - with regard to some grey financial products - if the state were to exercise a certain supervisory function over product quality from the outset (or even the EU).

"If the European Commission supported this, I think it'd be more serious."

"After the story with the Riester, which has caused a lot of displeasure among many people, I would very much welcome it if it were to be published all over Europe."

"It should actually come from Brussels, since more and more competences are being transferred, it must be transposed into national remnants, which is why it must be initiated by the European Commission.

"The government agencies should really take the lead in this, you shouldn't just leave it to the banks."

2.3.5 Models

Due to the short time available, a detailed discussion of the models was not possible. Basically, it can be said that models 2, 4 and 5, in which the reverse mortgage plays a special role, were not rated particularly well due to the criticism already voiced. Model 1 was considered unrealistic. Such a model will not work, especially in conurbations with sharply rising rents. Even if you commit yourself to living in the same apartment and paying rent for a lifetime, you will not be able to take advantage of any significant financial advantage in the current situation. At present, the rental housing market is purely a seller's market (broker). Model 3 was described as far too susceptible to failure. This applies to the selection of tenants as well as to the owner meetings.

a) Model 1: Lifelong lease with parallel pension plans

This model addresses the problem of a lack of pension savings, especially for those with low income, who are unable to save for retirement or property. The target group are relatively young couples or individuals who cannot afford property but is willing to enter into a lifelong rental commitment.

Most of the participants moderately or strongly agree that this product would be attractive to young people on low incomes that can't manage (or don't want to manage) a mortgage, as well as to low income people (see Table 5). The most frequently given overall grade is "good" (see Table 6).

Table 5: Model 1: Lifelong lease with parallel pension plans

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
1	A lifetime lease would be attractive to young people on low incomes that can't manage (or don't want to manage) a mortgage		2		3	3
2	A lifetime lease will mean rents lower than the market rate.		3	1		4
3	This product would be attractive to those on low incomes.		1	1	3	3
4	The government would be keen to subsidize this type of arrangement.		3	1	1	3
5	It doesn't matter that the customer does not share in house price appreciation.	1	2	1	2	2

Rank 1= strongly disagree, Rank 5=strongly agree
Every cell reports the frequency of how many participants have given a specific priority rank.

Table 6: Overall rating of model 1

Poor		Fair		Good		Very Good		Excellent	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
			2	3	4	1			

Every cell reports the frequency of how many participants have given a specific grade.

b) Model 2: Integration of a traditional mortgage and lifetime mortgage into one product

Most of the participants moderately or strongly agree that this product would be attractive to first-time buyers, and that young people need help with home buying and saving for their retirement. The opinions on whether a commitment to using their home to support their retirement is too much for a young home buyer are mixed (see Table 7). The most frequently given overall grade is "fair" (see Table 8).

Table 7: Model 2: Integrating a traditional mortgage and lifetime mortgage into one product

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
1	This product would be attractive to first-time buyers.			1	3	4
2	Young people need help with home buying.		1		3	4
3	Young people need help with saving for their retirement.		1		2	5
4	A commitment to using their home to support their retirement is too much for a young home buyer.	2	1	1	3	1
5	I think mortgages and retirement saving should be kept separate.	3	2	1	2	

Rank 1= strongly disagree, Rank 5=strongly agree
Every cell reports the frequency of how many participants have given a specific priority rank.

Table 8: Overall rating of model 2

Poor		Fair		Good		Very Good		Excellent	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
			4		2		1		

c) Model 3: Collective house purchase and later sold back to collective entity

Most of the participants moderately or strongly agree that this product would be attractive to those on low incomes, and that this is a good way to save for retirement. Five of the eight participants moderately agree that this approach is likely to be successful, because it relies on social cooperation (see Table 9). The opinions on whether this would work financially are mixed. The overall grade ranges from "poor" to "excellent" (see Table 10).

Table 9: Model 3: Collective house purchase and later sold back to collective entity

		Disagree		Neither	Agree	
		Strongly Moderately			Moderately Strongly	
	Question	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
1	This product would be attractive to those on low incomes.	2			3	3
2	I like the idea of owning a share of a real estate fund instead of a house.	1	3		3	1
3	I think this would work financially.	2	2	1	2	1
4	As this approach relies on social cooperation it is likely to be successful.	2	1		5	
5	This is a good way to save for retirement.	1	2		3	2

Rank 1= strongly disagree, Rank 5=strongly agree
Every cell reports the frequency of how many participants have given a specific priority rank.

Table 10: Overall rating of model 3

Poor		Fair		Good		Very Good		Excellent	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
1	1	1	2		2			1	

d) Model 4: Mortgage payment for retirement income

Most of the participants moderately or strongly agree that this product would be attractive to middle-aged people on modest incomes, and that housing and pensions should be treated the same way tax wise. Five of the eight participants agree that people would have other uses for their cash after repaying their mortgage other than pensions like this (see Table 11). The overall grade ranges from "poor" to "very good" (see Table 12).

Table 11: Model 4: Mortgage payment for retirement income

		Disagree		Neither	Agree	
		Strongly Moderately			Moderately Strongly	
	Question	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
1	This product would be attractive to middle-aged people on modest incomes.	1	1		3	3
2	I like the flexibility of switching between housing and pensions.		1	5		2
3	Housing and pensions should be treated the same way tax wise.	1	1		4	2
4	People will pay high charges on small pension funds.		1	4	3	
5	People would have other uses for their cash after repaying their mortgage other than pensions like this.		2	1	3	2

Rank 1= strongly disagree, Rank 5=strongly agree
Every cell reports the frequency of how many participants have given a specific priority rank.

Table 12: Overall rating of model 4

Poor		Fair		Good		Very Good		Excellent	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
	1	2		2	2	1			

e) Model 5: Government agency as an intermediary

Most of the participants moderately or strongly agree that they like that the government is involved in this product, but that providers won't lower their interest rates even with this product (See Table 13). The overall grade ranges from "fair" to "very good" (see Table 14).

Table 13: Model 5: Government agency as an intermediary

		Strongly Moderately			Moderately Strongly	
		Disagree	**Neither**	**Agree**	**Rank 4**	**Rank 5**
1	Variable interest rates on equity release schemes would be OK.		4	2	2	
2	My house value increases at the same rate as other houses in my region.			3	4	1
3	I think there would be more money left as an inheritance with this product.		3	2	2	1
4	I like that the government is involved in this product.			1	5	2
5	Providers won't lower their interest rates even with this product.		1	2	3	2

Rank 1= strongly disagree, Rank 5=strongly agree
Every cell reports the frequency of how many participants have given a specific priority rank.

Table 14: Overall rating of model 5

Poor		Fair		Good		Very Good		Excellent	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
		2	3	1		2			

2.4 Hungary Focus Group 1 (6 September 2016)

2.4.1 **Introduction**

By Jörg Dötsch, Erzsebet Cinger. The focus group was conducted as a part of the Pan European project titled "Integrating Residential Property with Private Pensions". Both an ageing population and the falling pensioners' support ratio in Hungary as well as in other EU countries have become a concern for EU governments and policy makers.

In comparison with other EU-countries, there is widespread home ownership in Hungary. Hence one policy solution to the challenge of old-age income is to release part of the cash (equity) tied up in a residential property through Equity Release Schemes (ERS).

Our aim in conducting this focus group was to assess the level of awareness about these issues amongst the participants. The investigation explored how the participants perceived ERS as an option to raise their retirement income level. We also analysed their preferences for using their house as a source of income and releasing equity from their house in contrast to other options.

2.4.2 **Methodology**

To get in contact with appropriate individuals we used the network of another EU-funded project at the Andrássy University dealing with old-age issues. Already in June 2016 we got in touch with two organizations, the "Életet az éveknek-szövetség" ("Fill Years with Life Association", own translation) and the "Szociális Innováció Alapítvány" (Social Innovation Foundation). Although our contacts to these organizations were immediately interested in our project and were obviously willing to help, we coped with several difficulties to ensure a sufficient number of participants in summer. The most important reason was that a lot of the elderly have grandchildren and assist their children with child care during the time of the more than two months long summer break. Therefor, at our first "call" we could hardly find anyone to join our session in Budapest. So we needed a second attempt to collect a sufficient number of participants for this focus group. We used mailing-lists and recommendations from our network to get in touch with potential participants, which we called directly by phone. We sent written invitations to all actually interested persons, which contained a short description of the project and its aims as well as a short description of the location, procedure and so on. During our phone-calls it turned out that some people were afraid to be invited to a sales-event for a financial product. According to this experience, we stated in the e-mails of our second call explicitely that this workshop would be hold exclusively for scientific purposes and that there would not be any selling intention. Finally, in September we had a positive feedback from ten participants, from which two were not able to take part, but without naming any specific reason. The focus group session was held in a small and friendly meeting room at the Andrássy University.

The meeting took place on September 6th, beginning at 10:00 am. It lasted two hours and thirty minutes, with a short coffee break.

After a short welcoming with coffee, tea and sweets, Dr. Jörg Dötsch opened the focus group discussion with a short introduction about the background, scope and objectives of the research project and the workshop itself. The workshop session itself was moderated by Erzsébet Czinger, who had already participated in a similar research project and thus had a lot of experience in moderating focus group interviews. There was only one break of approximately 10 minutes. Overall, there was a lively atmosphere, the participants were obviously interested in exchanging ideas and in learning something new regarding the main topic. Although we asked them severaly times, the participants did not want to have neither more breaks nor a longer break and obviously enjoyed the discussion. A couple of them stayed even after the official end of

the workshop to exchange some more ideas and thoughts concerning the topic with each other and with us.

2.4.3 Data Collection and Analysis

Table 1 provides some summary data of the participants regarding their age and housing situation. With the exception of one all participants were retired. All of them were residents of the Hungarian Capital. As the table shows, all participants were over sixty years old, with only one being older than seventy years. Most of the attendants lived alone in their occupied dwellings, only two live together with the younger generation.

Table 1: Profile of the participants

Age	Gender	Household type	Type of dwelling	Estimated value of the dwelling	Outstanding mortgage	(Former) Profession	Household income
61	Female	One parent family with at least one child living at home	Apartment	18 million HUF + weekend-house 6 million HUF	*not stated*	Lawyer	About average
69	Male	couple, without children	Terraced dwelling	15 million HUF	*not stated*	Director of a community center	Above average
60	Female	1 person	Apartment	13 million HUF	6 million HUF	Bank officer	Above average (counting the widow's pension as well)
66	Female	One parent family with at least one child living at home	Apartment	15 million HUF	*not stated*	Engineer	About average
65	Female	1 person	Apartment	12 million HUF	*not stated*	Pensioner	Aabout average
75	Female	1 person	Apartment	15 million HUF	*not stated*	Head of department	About average
68	Female	1 person	Apartment	17 million HUF	*not stated*	Officer	About average
67	Female	One parent family with children that all live elsewhere	Apartment	45 million HUF	*not stated*	Chemist Engineer	Above average

Source: Own compilation.

The participants were interested in the topic of the research project because they all struggled with a low old-age income, were concerned about their future and generally perceived financial insecurity. Almost everybody declared to have taken part first and foremost to exchange ideas and experiences with other people in a similar situation. Although all had come with the expectation to learn something new about alternatives or new options, to our surprise, all showed the same huge distrust and scepticism in the idea of constructing a new financial product like an ERS.

2.4.4 Findings

General Remarks: People's attitudes to homes and home ownership

All of the attendants were owner-occupier. Two of the participants mentioned that they have had the possibility to buy privately owned flats from the municipality. Five persons owned a dwelling from the pre-transition time, when rental flats were only allowed to be rented by persons belonging to specified income-groups (the Hungarian expression: "tanácsi lakás"). One person reported to have bought a house on the country side from money stemming partly from the sale of a privately owned flat in the capital and partly from a foreign currency loan. Then, due to the Hungarian foreign-currency loan crisis in 2015, the person had been forced to sell the house for a low price and to buy a smaller dwelling in the city again. The person is still paying instalments and is, overall, bitterly disappointed about personal history regarding home ownership and indebtedness.

Among all participants, family ties emerged to be one of the most important aspects of home ownership. The participants emphasized a clear preference for home ownership because of the possibility of inheritance. They all planned to pass on as much of their own wealth as possible and expressed the will to live on an even lower standard if this is a precondition to save more for their heirs. Regarding home ownership and retirement income, there was hence a remarkable ambivalence. While being interested in alternative solutions for old-age security, the participants explicitly rejected solutions which would involve their inheritable property. One person mentioned the importance of home ownership because it could play the role of a security for a loan for the younger generation in the family. Accordingly, one participant stated explicitly that property and especially one's own home plays a decisive role in Hungarian families in general. It has obviously not only a function as intergenerationally relevant security, but as a symbol of wealth. Apart from the intergenerational aspect, one participant emphasized that an own dwelling gives him personally a sense of security. Another participant used an economic argument mentioning that living in a rental dwelling would never had been an alternative because of the high rental fees, which would be almost impossible to pay. From this point of view even an expensive mortgage credit to acquire housing property would definitely make sense in the long run.

Questions: When you decided to buy your own home, how did you finance that? Did you have a down payment or mainly mortgage? What – if you did – were the reasons to buy other properties? Was it a financial investment or was there some other reason?

With regard to our age-group this aspect is decisively influenced by both the pre-transition era and the special circumstances of post-socialist regimes. Four participants bought their first and only own dwelling in the socialist period because they have been forced to buy it. According to the legal situation under the former socialist regime, people with wages above a defined limit had not been allowed to rent dwellings. Even if this had not been their preference, they were forced to buy. Interestingly, even if they belonged to the respective income category, the participants lamented that the prices for home property had been unpleasantly high. The respective participants financed their homes by saving money, by help of their families and by additional credit. To have acquired their homes under that circumstances seems to be one factor which makes this age-group stick to their own dwellings. They perceive the price they have paid as high.

Two of the participants responded to have bought their own dwellings from the municipal entity *after transition* and – as they emphasized – very cheap, without explaining the closer circumstances.

One participant had bought an additional property for the purpose of having a weekend-house, not as a financial investment. But the kind of use changed, as the property is now let out and used as a source of additional income.

Question: To what degree do people rely on different sources of retirement income?

The first column of the following Table 2 presents various sources of income during retirement age. We asked the participants to identify the ones they were receiving from this list and to rank them in order of their importance (1 as most important).

Table 2: Source of retirement income in terms of importance

Source of retirement income	**Ranking according to importance**							
State pension	1	1	1	-	1	1	1	1
Occupational pension	-	-	-	-	-	-	-	2
Housing (the house you live in)	-	yes	2	2	2	-	3	-
Family (financial support or in kind support)	-	-	-	3	-	2	-	3
Other properties (rental income)	-	-	-	-	3	-	-	-
Social benefits (e.g. social assistance, unemployment benefits, housing allowance)	-	2	-	-	-	-	-	-
Other incomes	-	-	-	1	-	-	4	-

Source: Own compilation.

With the exception of one participant, all the participants received state pensions as the most important source of income. Although the participants emphasized the importance of inheritance during the first section of our workshop, housing is ranked as the second most important source of income – in our case, this means that the attendants, knowing the general ownership situation in Hungary, see housing as the only *potential* additional income. Income from family and from other sources are accordingly ranked significantly low, because intergenerational transfers take place mainly from the elderly to the younger generation – not vice versa.

Questions: In terms of retirement income, how does it compare to your income before retirement? Is it the same level or was there a big drop?

Most of the participants perceived retirement income to be very low. Most participants state that they cope with serious material problems and are concerned about the future development. One attendant told that after having paid his incidental expenses there are only about 30.000 HUF/month (approximately 100 EUR/month) left. Participants perceived their retirement income to have dropped to a large degree when compared to their income before retirement. Interestingly, the participants did not compare the level of a former loan to their current retirement income, but referred to a wider context as e.g. the combination of the own loan/retirement income and the loan/retirement income of the respective spouse or the supplementation of income by a widow's pension or income from letting a dwelling (one participant). Attendants emphasized that prices are increasing faster than their rental income. In this respect, rental income is less flexible than their former income, which were developing more dynamically.

Questions: How do you expect your retirement income to develop? Will you have the same level of retirement income indefinitely? Alternatively, will it drop off over time?

We find that most of these individuals perceive *financial insecurity* and are deeply pessimistic. Attendants do not expect their rental income to grow, they rather realize that living expenses grow. One participant explicitely had his doubts that the currently paid state pension will still be paid in a few years time. Everybody seems to be concerned about the future.

Questions: What about family? Does your family contribute to your retirement income?

The participants emphasized the general importance of intergenerational transfers. But not a single attendant expected the younger generation to contribute to the retirement income. Quite the opposite: the participants wanted to support the younger generation and planned to do so as long as possible. One participant mentioned an intragenerational aspect by emphasizing the importance of supplementing the own retirement income by a widow's pension.

Case study: Attitudes to forms of housing equity withdrawal (vignette)

The participants were confronted with a case study to gather information on their attitudes to forms of housing equity withdrawal. We asked them to act as financial advisers to a retired couple who are roughly about 70 years of age. The case study is as follows:

> An older retired couple (around age 70) without children lives in a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners of the house (they have already paid off the mortgage). The man as part of this couple is having health problems. His health insurance partially covers the health care expenses. The retirement income of the household is insufficient to meet additional expenses. The couple is thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following four options:
>
> - Sell the house and move to a rental dwelling;
> - Sell the house and move to a smaller home ownership dwelling;
> - Sell the house and rent it back (sale- and lease-back);
> - Stay in the house and use a financial product to extract the housing equity;
> - Let out part of the dwelling.

Table 3 provides an overview of the ranks given to the different options by the participants. Grade 1 represents the most preferable option, 10 the worst.

Table 3: Options of housing equity withdrawal and their rank

Options	Ranking by participant								Number of 1st choices
Sell the house and move to a rental dwelling	8	3	1	5	4	4	4	3	1
Sell the house and move to a smaller home ownership dwelling	1	1	2	1	1	1	1	1	7
Sell the house but stay by renting it back against a commercial rent (sale- and lease-back)	10	4	5	3	3	3	2	2	0
Stay in the house and use a financial mortgage-related product to extract the housing equity.	4	5	5	4	5	5	5	5	0
Let out part of the dwelling	3	2	5	2	2	2	3	4	0

Source: Own compilation.

Participants showed a very clear preference for selling the house and move to a smaller ownership dwelling. The money left was seen as a potential additional source for retirement income. The participants emphasized the importance of having own property over the whole lifespan and that it would be a priority for them to have the possibility to stay in this dwelling. At an earlier stage of the workshop the participants used the same arguments that they would all keep their own dwelling as long as possible. One participant found the most attractive option to sell and rent back, but underlined that this would depend on the specific conditions of the contract and that he does not want to be at someone's mercy. One person emphasized that financial independence would be perhaps the most important principle in life: "Someone may give up his identity or his principles, but in any case he has to keep his independence and his financial security." The group nodded its agreement. This position did not change, even as we argued, that the property was old and had to be renovated.

Attitudes to Bequest and Equity Release Products

Next, we asked the participants about their intentions in regard to leaving an inheritance and the importance they attaced to it. For each of the participants – as already repeatedly and strongly emphasized by the attendants at earlier stages of the workshop – inheritance plays a very important role, since it is thought to be a kind of central commitment to a family. This holds even although most people do not have too much to inherit. Because of the relatively high probability to need care in later years, all participants are concerned with the question if they will be forced to sell something to privately finance care expenses.

Questions: Do you know about equity release products? What are the current products available in the market at present?

One participant pretended to know that his neighbour has had an ERS contract, but certainly did not know exact details. He had heared that in the aftermath of the global financial crisis the ERS provider closed the program. The attendant reported that now his neighbour is feeling pretty unsafe.

The participants showed superficial or limited knowledge about equity release products, most of them had absolutely no clue of the current market situation. Most of them had come to exchange ideas about alternative solutions or rather to *get* some idea. One participant had heard something about ERS-like offerings of a municipality, but did not know any further details. But they all agreed that in Hungary there had never been no single provider which had proven its reliability.

Question: There are many providers involved in the equity release market such as banks, insurance companies and commercial companies and so on. Just looking at the list of providers, which of these you think are the most trustworthy and the least in relation to these products?

Table 4 provides an overview of the ranks given to the different options by the participants.

Table 4: Trustworthiness ranking of product providers

Provider	**Ranking by participants**							
	10 = having the highest trust in the provider							
Banks	1	5	10	6	4	5	5	1
Commercial companies	3	6	5	7	3	5	10	1
Insurance companies	1	9	10	4	3	5	5	1
Occupational pension funds	3	5	1	1	2	3	10	1
Government	1	0	10	8	2	2	10	1

Source: Own compilation.

Overall the participants saw the highest degree of trust at the commercial companies, because they would be responsible for their business. But this is rather a theoretical position, because all attendants perceive a high degree of financial insecurity and hence, basically, do not trust in any provider. All participants showed no trust at all in neither the state nor private providers. They rather knew about a couple of bad examples from in the Hungarian market and lived in the consciousness to have survived a completely different economic order. The attendants feel that they have to look after themselves on their own. Thus, they consider home ownership as the only trustable intrument. Generally, they miss transparency and a reliable financial supervision in Hungary.

2.4.5 Conclusion

The attitude of our group to home ownership and ERS products seems to be a bit contradictory. On the one hand, every person emphasized the importance of financial security, family ties and of inheritance. On the other hand, the participants openly stated that there would be a need for ERS-like products, because they think the current pension system not to be sustainable and their retirement income to be too low.

All participants have been aware of the fact that in case of becoming dependent on care they may be forced to do a step forward towards liquidating their property. But no one is ready to do this in anticipation.

Besides, attendants showed a huge distrust regarding all kinds of retirement income providers, may it be the state, banks or insurance companies. The distrust regarding ERS products had been confirmed by the suspension of the ERS programs offered in Hungary in the slipstream of the global financial crisis a few years ago. Participants perceived systematic financial insecurity and showed an overcautious attitude as well as an unrealistic "let me have my cake and eat it too"-attitude.

2.5 Hungary Focus Group 2 (20 October 2016)

2.5.1 **Introduction**

The focus group was conducted as a part of a EU grant project titled "Integrating residential property with private pensions in the EU". Hungary faces several challenges with regard to old-age provision. In the long run, the demographic development will weaken Hungary's current pension system. Alternatives for old-age provision will sooner or later have to be found. Due to the fact that Hungarians have to expect comparatively low pensions and due to a high ratio of residential equity, it seems feasible that residential property may play a crucial role in supplementing pension incomes.

We hence arranged the focus group interview to study the individuals' attitudes to home ownership and to understand to what extent there may be an interest or willingness among home oweners in extracting housing wealth for the purpose of generating pension income.

2.5.2 **Methodology**

Similar to our first focus group interview organized in early summer, we used the network of another EU-funded project at the Andrássy University dealing with old-age issues to get in contact with appropriate attendants this time as well. The organisations are the "Életet az éveknek szövetség" ("Fill Years with Life Association") and the "Szociális Innováció Alapítvány" (Social Innovation Foundation). And similarly as to our first attempt, we again coped with difficulties to ensure a sufficient number of participants. We first used the recommendations of our contacts to get in direct touch with potential participants. We then sent official invitations to all actually interested persons. These contained a short description of the project and its aims as well as a short description of the location, procedure and so on.

Based on the experience of our first workshop, in advance we provided the information to everyone that the workshop would not have to do anything with a sales interest and would be exclusively for scientific purposes.

Finally, we had a positive feedback from five participants. Exactly as it happened at our first workshop, two of the previously registered participants were not able to take part, again without giving us any specific reason. With the difficulities of recruiting in mind, we decided to hold the session nevertheless and not to send people home. This would have been recognized as an inexcusable unpoliteness and would hence have endangered the well-cultivated relationship to our partner organisations. The session was held in a small and friendly meeting room of the Andrássy University.

The meeting took place on October 20th, beginning at 10:00 am. The session lasted 2 hours and thirty minutes. After a short welcoming with coffee, tea and sweets, the workshop was offficially opened by Dr. Jörg Dötsch who shortly introduced the background, the scope and aims of the project and of the workshop as well. The workshop session itself was moderated by Erzsébet Czinger, who had also moderated the first workshop. She had already participated in a similar research project and thus has a lot of experience regarding the moderation of focus group interviews. Although we offered to have one break, there was none, because the attendants did not want to have one: "Let's procede, we are not tired at all". Overall, there was a lively atmosphere, the participants were obviously interested to have an exchange of ideas and to learn something new regarding the main topic. As stated above, although we asked the participants politely, they did not want to have neither more breaks nor a longer break, thus they obviously enjoyed the discussion.

2.5.3 Data Collection and Analysis

Table 1 provides some data of the participants regarding their age and housing situation. All participants are retired, but two of them mentioned to have worked after reaching retirement age, too. All of them are residents of the Hungarian Capital. As the table shows, two of the participants are over seventy, one must be over 60 because of having reached retirement age. All attendants but one live in a one parent family (in this case widows) with children who live elsewhere, while the remaining one participant lives with spouse in their occupied dwelling.

Table 1: Profile of the participants

Age	Gender	Household type	Type of dwelling	Estimated value of the dwelling	Outstan-ding mortgage	(former) Profession	Household income
No data	Female	One parent family with children that all live elsewhere	Apartment	7 million HUF	*None*	Artisan in leather goods	below average
74	Male	Couple with children that all live elsewhere	Apartment	24 million HUF	*None*	Pensioner	about average
74	Female	One parent family with children that all live elsewhere	Terraced dwelling	10 million HUF	*None*	Social worker	about average

Source: Own compilation.

The attendants were interested in the topic of the research project because they all struggle with low old-age income, are concerned about their future and generally perceive financial insecurity. One person said to have been informed by his network that the workshop would be about an insurance-topic. Generally, the participants metioned to have applied first and foremost to exchange ideas and experience with other people in a similar situation. Although all have come with the expectation to learn something new about alternatives or new options, to our surprise all showed the same distrust and scepticism in the idea of constructing a new financial product like an ERS.

2.5.4 Findings

General Remarks: People's attitudes to homes and home ownership

All of the attendants were owner-occupiers. Among all participants, family ties emerged to be one of the most important aspects (more detailed statements below).

Questions: When you decided to buy your own home, how did you finance that? Did you have a down payment or mainly mortgaged? What –if you did – were the reasons to buy other properties? Was it a financial investment or was there some other reason?

For all of the participants the pre-transition-era played a decisive role.

One participant had bought his dwelling with a mortgage credit. It had been massively supported by the state so that he did not need even 15% of the whole price in own equity.

Another participant moved to his dwelling in 1980. The dwelling then belonged to the municipality. In the end of the 1980es, there had been the possibility to buy this dwelling for a good price. The couple then had two children and decided to buy a small building lot on the name of their son, the flat on the name of their daughter to avoid that in case of death anyone would have needed to pay inheritance tax (which has been abolished in the meantime). For this reason, the attendant did not have any own housing property.

The other participant decided in the pre-transition era to move with his spouse to a flat in the capital, in which an older person lived. There was the possibility to take over the care of the current owner, if needed, until his death, and then to take over the dwelling after death. The couple finally took over the dwelling, but after having got pregnant decided to move on to a bigger flat of approximately 70 squaremeters. After the spouse got hampered, the couple moved forward in a small house, which had been bought under the name of their son to avoid inheritance tax for them. One of their children decided to buy an own flat with a foreign-currency lown. During the Hungarian foreign currency-loan crisis in 2015 they got in serious trouble. Because their daughter-in-law had been very "smart", the house is now on her name – and hence the participant has recently no own housing property.

To what degree do people rely on different sources of retirement income

The first column of the following Table 2 presents various sources of income during retirement age. We asked the participants to identify the ones they were receiving from this list and to rank them in order of their importance (1 as most important).

Table 2: Source of retirement income in terms of importance

Source of Retirement Income	Ranking according to importance		
State pension	1	1	1
Occupational pension	-	-	-
Housing (the house you live in)	-	-	-
Family (financial support or in-kind support)	2	-	-
Other properties (rental income)	-	-	-
Social benefits (e.g. social assistance, unemployment benefits, housing allowance)	1	-	-
Other incomes	-	-	-

Source: Own compilation.

All participants marked state pension as the most important source of income. They found the option of being supported by their family rather funny, because quite in contrast they wanted to support their family members: "This is rather costs than income." Any other possibility seemed to be unthinkable or unethical to them: "This is the good way."

Questions: In terms of retirement income, how does it compare to your income before retirement? Is it the same level or was there a big drop?

Some attendants had retired already before transition and they perceive that the world around them has changed completely. At the time before retirement they had expected a secured and calm life. Now they all emphasize that they perceive financial and social insecurity. One participant frankly said that his (or her) current retirement income is 80.000 Forints (approximately 260 EUR).

Basically, retirement income after regular income was a big drop. One participant mentioned to have kept on working in addition to the retirement income "for 100%".

Retirement income for most of the participants is perceived to be very low. Participants admit that they cope with material problems.

Questions: How do you expect your retirement to develop going forward? Will you have the same level of retirement income indefinitely? Alternatively, will it drop off over time?

We find that very similar to the results of the first focus group interview most of these individuals perceive *financial insecurity* and are deeply pessimistic. Attendants do not expect their rental incomes to grow, they rather perceive that living expenses grow. They all are deeply concerned about the future development. Attendants claim that retirement income above 100.000 HUF (approximately 320 EUR) can be expected to be taxed with 20% in the future and do not expect the general situation to improve. They rather expect that the genereation of their children will have even more serious problems: one estimated the later rental income of a child to be less than 160 EUR, another estimated that there will be no pension for the younger generation at all.

Questions: What about family? Does your family contribute to your retirement income?

It is, as already emphasized above, quite the opposite. Retirees contribute to their families with all they can and do not expect anything from the younger generation of their families.

Attitudes to forms of housing equity withdrawal (vignette)

The participants were confronted with a case study to gather information on their attitudes to forms of housing equity withdrawal. We asked them to act as financial advisers to a retired couple who are roughly about 70 years of age. The case study is as follows:

An older retired couple (around age 70) without children lives in a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners of the house (they have already paid off the mortgage). The man as part of this couple is having health problems. His health insurance partially covers the health care expenses. The retirement income of the household is insufficient to meet additional expenses. The couple is thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following four options:

- Sell the house and move to a rental dwelling;
- Sell the house and move to a smaller home ownership dwelling;
- Sell the house and rent it back (sale- and lease-back);
- Stay in the house and use a financial product to extract the housing equity;
- Let out part of the dwelling

Table 3 provides an overview of the ranks given to the different options by the participants. Grade 1 represents the most preferable option, 10 the worst.

Table 3: Options of housing equity withdrawal and their rank

Options	Ranking by participant			Number of 1st choices
Sell the house and move to a rental dwelling	2	1	3	1
Sell the house and move to a smaller home ownership dwelling	1	2	1	2
Sell the house but stay by renting it back against a commercial rent (sale- and lease-back)	3		4	0
Stay in the house and use a financial mortgage-related product to extract the housing equity.	5		5	0
Let out part of the dwelling	4		2	0

Source: Own compilation.

Participants showed a preference for selling the house and move to a smaller ownership dwelling. They openly rejected any mortgage-related products and showed strong emotions against any kind of mortgage. Mortgage is principally perceived as a bad thing. Even the solution of moving to a rental dwelling was rejected by most of the participants. They named unacceptably high rental fees as a reason for rejection and

that living in a rental dwelling would entail the risk that the landlord would act unethically. They mentioned the high amount of utility costs, obviously ignoring the fact that there are utility costs at every kind of dwelling and overhead costs are shared in apartment houses. Quite the opposite: "Utility costs and overheads are terribly high together (…) these are not even your own utility costs, you pay for the heating in the staircase, for the light…"

In the case the property would have been in a bad condition, two participants stated to sell it and rent it back, while another attendant would not have changed the strategy. One participant mentioned life annuity programs, which would have been a good option, without knowing any further details. One attendant again refused any solution including any kind of mortgage: "I cannot stress that enough." - while the others nodded to this statement affirmingly.

Attitudes to bequest and equity release products

Next, we asked the participants about their intentions of leaving an inheritance and if it was important. The first participant put a very telling statement: "I don't think inheritance is important. They inherit the dwelling." That is, inheritance of housing property can basically not even be questioned. Participants rather started to chat about whether their heirs would argue or not and praised each other for having solved this problem in advance, e.g. in the case of one participant they had already split the property in half for their two children.

Thus, to have heirs poses a serious obstacle for equity release schemes in Hungary, because people like to inherit as much as they can.

Questions: Do you know about equity release products? What are the current products available in the market at present?

One participant had some experience regarding the equity release schemes provided by the OTP, because some of the members of his pensioners' club had closed contracts. The participant remembered that this seemed to "have worked well", but remarked that none of the clients he knew have had children. The participant reported that the bank payed attention that the dwellings have been in good condition: "The bank was not the enemy of its own money". The participant reported that the OTP bank had organized marketing events to sell ERS products and that most of the people in their pensioners' club resisted to enter into contract with OTP due to the fact that the property would be overwritten to the bank and would no longer be their own. Older people would not have beared this feeling "not to have anything" or to be at someone's mercy, though, objetctively, this had not been a bad solution.

Participants do not know much regarding the providers of ERS. They remember the OTP, FHB and, with some help, Hild. They consider ERS products as an attractive solution for those people, who have residential property of a significant value. Additionally, they claim that an ERS product should ensure a sufficiently high amount of income every month. Interestingly, they rather think that an ERS product would be a more attractive product for younger people than for the older ones. If younger people had the possibility to spare money, they rather should invest in housing property and try to let as much as they can. Besides the money, the maintainance of the housing property and the provision of care should be included in an ERS contract.

Question: There are many providers involved in the equity release market such as banks, insurance companies and commercial companies and so on. Just looking at the list of providers, which of these you think are the most trustworthy and the least in relation to these products?

Table 4 provides an overview of the ranks given to the different options by the participants.

Table 4: Trustworthiness ranking of product providers

Provider	Ranking by participant		
10 = having the highest trust in the provider			
Banks	10	2	7
Commercial Companies	10	5	6
Insurance Companies	7	1	4
Occupational Pension Funds	1	4	1
Government	1	3	1

Source: Own compilation.

Two attendants said they trusted in banks more than in other providers, because "they have the money" – but "you cannot trust even in banks 100%, because even if they are here now, tomorrow they disappear." People rather trust in themselves and in nothing else. Everybody distrusted the state, not only because of the most recent reforms, but because of having living under dictatorship. Verbally, attendants seem to trust mostly in commercial companies, because they would be forced to work as profitable as they can.

2.5.5 Conclusion

The attitude of this small group to home ownership and ERS is similar as that which we observed at our first focus group interview. Participants perceive financial insecurity. Having survived dictatorship and transition they now have been witness of a couple of contradictory reforms in the post-transition era. According to this, they have a huge distrust against any financial provider or even the state. They only trust in themselves. Residential property seems to be the only safe point in their material life and they try to keep it even if another solution to improve their material situation in retirement age would be objectively better. Furthermore, the participants emphasized the important role of inheritance, which is for them with regard to housing property not even questionable. Overall, the participants considered the idea of equity release schemes as not being bad – but not acceptable for them.

2.6 Hungary Focus Group 3 (20 October 2017)

2.6.1 Introduction

In the following we give a brief summary of the third focus group conducted in Budapest as a part of the project "Integrating Residential Property with Private Pensions in the EU". Held at Andrássy University Budapest, 9.00 - 12.00 on 20.10.2017.

2.6.2 Background

Unlike the first two focus group workshops held in Budapest, we faced serious difficulties to recruit participants. To our first invitation letter, which was sent out in September to a couple of persons we knew from former research and collaboration and to several stakeholder groups as e.g. pensioners clubs, we did not get any feedback at all. According to the missing ERS market and our experience with former focus groups this was basically not a big surprise, but an even more definite sign of disinterest as we had been afraid of.

After having reported this situation to the consortium we decided to announce a financial incentive for taking part in the workshop according to the successful approach of our German project partners of the Institute for Financial Services in Hamburg. Following the German example we took the (Hungarian) minimum hour wage as starting point and offered four times as much for the participation in the workshop (which was effectively 10.000 HUF, i.e. approximately 30 EUR). Even with this – from our point of view generous – incentive we received not more than four registrations in total for a second invitation letter sent out in October, which was still an even lower response rate than of our first two focus groups.

Because only one registered participant had arrived on time we decided to wait and then started the workshop 25 minutes later than announced - with one person. However, three of the four attendants arrived with a delay of almost 80 (eighty) minutes and pretended to have had problems to find a parking place. The arrival of the three participants at that point of time was quite a surprise. Nevertheless we decided to welcome them warmly and to show understanding for their parking problems. We solved the problem of needing a separate starting point by offering a break for the only punctual attendant and to present the short introduction for the three latecomers in the meantime. After that, we proceeded the workshop according to the originally planned procedure together. We "finished" the workshop then by catching up the first hour with the latecomers separately, because the only punctual attendant had to leave on time. In this way, with a phase shift, every attendant took part in the whole procedure. Apart from this phase shift the participants took part actively, spoke frankly and put a lot of questions.

There were two researchers of our team present during the conduct of the focus group. One of them played the role of a moderator, while the other helped as assistant moderator. The moderator presented a short outline of the project and of the progress to date for every participant.

2.6.3 Participants' Profile

Four participants, all women, participated in the focus group. They were all above 60 years of age. All but one participants owned property and all of them were seemingly engaged in problems of old age provision and housing. Three of them indicated to have a monthly household income about average, one participant to have only under average income under his disposal. Regarding the former professions the group showed a good mix (lawyer, postal employee, artist, civil servant). Two of the registered attendants had already taken part in one of the former focus group interviews and claimed to be first and foremost interested in the outcomes of the project.

Evaluation of ERS Product Characteristics and Trustworthiness

2.6.4 Preferences for Utilising Extracted Equity

We provided participants with an explanation of the loan and sale model versions of ERS. Thereafter, they were given cards to rank their preferences for utilising the equity extracted from such products if they were to opt for ERS products. As can be seen from the Table 1, their first preference was leisure/holidays that was followed by medical expenses and day to day expenditure.

Table 1: Options for utilising home equity (1 for highest proportion)

Option	Rank of importance				*Average*
Day to day expenditure such as grocery, utility bills	4	1	3	2	***2,5***
Medical expenses	3	4	2	1	***2,5***
Help family members	2	5	5	3	***3,75***
Leisure / holidays (vacation, camper, second home etc.)	1	2	1	5	***2,25***
Any other purpose	5	3	4	4	***4***

2.6.5 Product Characteristics

Next, participants were asked about the features of good ERS products. This was to understand what standards or characteristics are more important for the design of such ERS products. Table 2 provides an overview of the ratings.

Table 2: Product standards / characteristics (1=Extremely important, 2=Fairly important, 3=Not so important, 4=Not important at all)

Standards	Rating				*Average*
a) Fixed interest rate	1	1	2	2	***1,5***
b) Variable but capped rate of interest	2	1	2	2	***1,75***
c) Right to tenure	1	1	1	1	***1***
d) No negative equity guarantee	2	1	1	1	***1,25***
e) To be able to choose your own solicitor	1	1	1	1	***1***
f) Fair and simple illustration of your plan	1	1	2	2	***1,5***
g) Information of all costs involved and who will bear them	1	1	1	1	***1***
h) Tax implications	2	1	1	1	***1,25***
i) Early repayment options	2	1	3	1	***1,75***
j) Flexibility to move homes	3	1	2	1	***1,75***

As Table 2 shows, the right to tenure, the ability to choose an own solicitor and information of all costs involved and who will bear them were rated as most important.

2.6.6 Awareness/Trustworthiness

Participants were asked whether more protection is needed for the customers and how could it be provided. (Currently the Central Bank and the Competition Authority serve to protect consumers). Similar as in first two focus groups, attendants first and foremost

showed a determined and general distrust both in financial providers and in regulators / the state. Neither the regulatory framework nor the institutions are perceived to be trustworthy on the long run. People argued with their experience before, during and after transition and mentioned the latest developments during the GFC. People used similar arguments as on the first two workshops when, on the one hand, they emphasized that only a strong regulation provided by the state would ensure trustworthiness of ERS products and, on the other hand, they arguied that they did not trust in official regulation.

Nevertheless the participants were pretty active when it came to brainstorming about how to raise awareness about ERS products. They suggested it would be a promising way to place ads in advertising leaflets of providers of FMCGs as e.g. supermarkets to reach a high number of potential customers. They mentioned the social media and the TV and radio ads as well, but conceded that there would always be a trust problem.

2.6.7 Alternative proposed solutions (Product models)

Before asking questions, the moderator explained each alternative proposal that were framed by the research consortium. Participants were then asked to agree/disagree with the different features of the solutions and were also asked to give overall ranking to the solutions.

The results shown in all the below mentioned tables illustrate the complete preferences given by the participants. For example, 1 was assigned to strong disagreement, 2 was assigned to moderate disagreement, 3 was assigned to neutral (neither), 4 was assigned to moderate agreement, 5 was assigned to strong agreement. Thereafter, mean is calculated to show the final preference from all the participants. If the mean is in decimal, the nearest number is chosen. For example, 3.6 is considered as 4 hence moderate and likewise 3.4 is considered as 3 hence neutral (neither). Moreover, an overall rating was also given by the participant on a scale between 1-10 (1 and 2 for poor, 3 and 4 for fair, 5 and 6 for good, 7 and 8 for very good, 9 and 10 for excellent.

2.6.7.1 Lifetime Lease with parallel pension plans

Table 3: Lifetime Lease with parallel pension plans

Questions	Evaluation				Average
	Person 1	Person 2	Person 3	Person 4	
A lifetime lease would be attractive to young people on low incomes that can't manage (or don't want to manage) a mortgage	4	4	5	4	4
A lifetime lease will mean rents lower than the market rate.	5	3	5	5	5
This product would be attractive to those on low incomes	4	5	5	4	5
The government would be keen to subsidize this type of arrangement.		3	4		4
It doesn't matter that the customer does not share in house price appreciation.	1	5	5	3	4

Overall rating given by the participants	5	7	8	5	6

All participants provided additional comments which are summed up shortly in the following:

- This solution may be beneficial only for certain social groups
- Subsidies for this kind of arrangement may only be provided in case of new properties
- People still recall cases of abuse by financial institutions
- Expectance of legal guarantees by the state
- The contract has to contain clear reference to who is bearing the repair and maintenance costs

Participants also provided some questions, which are reported in shortened form:

- Who will pay the maintenance costs? Can the apartment be let out if the life situation makes it necessary?
- Why is it the obligation to pay the rental fee that finishes and not the obligation to pay into the pension fund?
- Do the overhead costs have to be paid in addition to the rental fee?
- What kind of maintenance costs are to be covered by the owner?
- If there was a change in the life situation of the tenants, what were the options that they could choose of?
- Is there an option of changing the property?
- Is the right to rent inheritable?

As can be seen from the table 3, participants gave a good ranking to this solution overall.

2.6.7.2 Integrating a traditional mortgage and reverse mortgage into one product

Table 4: Integrating a traditional mortgage and reverse mortgage into one product

Questions	Evaluation				Average
	Person 1	Person 2	Person 3	Person 4	
This product would be attractive to first-time buyers.	***5***	5	2	3	4
Young people need help with home buying.	5	5	4	4	5
Young people need help with saving for their retirement	5	4	5	4	5
A commitment to using their home to support their retirement is too much for a young home buyer.	5	2	5	2	4
I think mortgages and retirement saving should be kept separate.	5	1	5	4	4
Overall rating given by the participants	6	7	7	7	7

The participants provided additional comments which are summed up shortly in the following:

- In Hungary it is not safe to invest in (private) pension funds.
- There have been many disappointments linked to credits and pension savings. A very serious security guarantee would be needed.
- This model could be more attractive to the young people, however, the question if the ownership can be inherited still remains.
- Would it be possible to have a bigger property later on as the family is growing or to move to a smaller apartment when becoming older?

As can be seen in the last row, participants gave a good ranking to this solution overall.

2.6.7.3 Shared home ownership and tenant's fund

Table 5: Shared home ownership and tenant's fund

Questions	Evaluation				Average
	Person 1	Person 2	Person 3	Person 4	
This product would be attractive to those on low incomes.	5	4	2	3	4
I like the idea of owning a share of a real estate fund instead of a house.	4	4	4	4	4
I think this would work financially.	5	4	4	4	4
As this approach relies on social cooperation it is likely to be successful.	4	3	4	3	4
This is a good way to save for retirement.	5	4	4	4	4
Overall rating given by the participants	7	6	6	6	6

The participants provided additional comments which are summed up shortly in the following:

- Detailed guarantees are necessary
- In Hungary, people are distrustful towards this kind of models, however, the model can work if the financing of the property fund is stable and it is possible to change property
- It could work financially: % of ownership in the contracts, selling, inheritance, settlement of ownership community
- The model would only be acceptable together with appropriate guarantees.

2.6.7.4 Pension savings post mortgage payment

Table 6: Pension savings post mortgage payment

Questions	Evaluation				Average
	Person 1	Person 2	Person 3	Person 4	

This product would be attractive to Middle-aged people on modest incomes.	2	4	2	2	3
I like the flexibility of switching between housing and pensions.	4	4	5	3	4
Housing and pensions should be treated the same way tax wise.	5	5	5	2	4
People will pay high charges on small pension funds.	4	3	4	5	4
People would have other uses for their cash after repaying their mortgage other than pensions like this.	5	5	4	3	4
Overall rating given by the participants	4	8	7	5	6

The participants provided additional comments which are summed up shortly in the following:

- The idea is good. However, I think the time is not right for it yet in Hungary.
- It could be a solution for those who have no heirs. Pension funds exist already nowadays in Hungary, however few Hungarians understand these instruments and most Hungarians don't trust financial consultants. The people would rather buy sovereign bonds or give the money to their children.
- The basic question is that how many years are remaining until retirement (for paying money into the pension fund). In the case of other savings, it is considered practical to be able to choose between two saving goals.

2.6.7.5 Government agency as an intermediary

Table 7: Government agency as an intermediary

Questions	Evaluation				Average
	Person 1	**Person 2**	**Person 3**	**Person 4**	
Variable interest rates on equity release schemes would be OK.	2	4	4	5	4
My house value increases at the same rate as other houses in my region.	5	4	5	3	4
I think there would be more money left as an inheritance with this product.	3	1		2	2
I like that the government is involved in this product.	5	5	5	4	5
Providers won't lower their interest rates even with this product.	5	1	4	5	4
Overall rating given by the participants	7	4	5	6	6

The participants provided additional comments which are summed up shortly in the following:

- The standard of the properties can vary a lot, thus so can their prices!
- The involvement of a government agency doesn't mean a guarantee for me. A commitment by the state would be acceptable for me.

2.6.8 Conclusion

All in all, the outcome of our workshop was ambiguous. On the one hand, all participants were quite cooperative, filled out all our cards and provided a couple of additional information by giving own comments. On the other hand, the conversations revealed that the topic was rather of theoretic nature. The attendants always turned back to the arguments – well known by the first two workshop – that, firstly, ERS would be a helpful mean to solve old age problems but, secondly, for sure not in Hungary, due to reasons of perceived instability, distrust in financial providers, governments and (regulatory) institutions. This typical contradiction seems to be visible by the fact, that each solution has been equally rated as "good" and only one as "very good". The latter was, almost ironically, the solution of integrating a traditional mortgage and reverse mortgage into one product. One of the comments to that solution expressed one of the most influential factors for the demand side in Hungary: "there have been many disappointments linked to credits". On the basis of the conversation it seems that the attendants perceived the cards as theoretic options. We gained the impression that they were rather interested in conversation, personal contacts and "inspiration" for solving problems in old-age provision than in real ERS products.

2.7 Irish Focus Group 1 (Waterford, 2016)

2.7.1 Introduction

The focus group was conducted as a part of the Pan European project titled "Integrating Residential Property with Private Pensions". Both an ageing population and the falling pensioner's support ratio in Ireland, as well as other EU countries, have become a concern for EU governments and policy makers. Most of the pension reforms made by the Irish government to increase the rate private pension provisions have not been as effective as intended from policymakers' perspectives. Several reasons may lie behind this, not least being the impact of the financial crisis on incomes, taxes, employment, credit and savings. Ireland does have one of the lowest net replacement rates (about 45%) in the EU though this may be counteracted to some degree by other benefits available within the social welfare system such as free travel, heating & fuel allowances, home care packages, etc. In addition, there is still widespread home ownership and where unencumbered by mortgages, particularly among the elderly, this reduces the need for income. Unlike in its European partners where tenancies are much more widespread, no rental obligation that has to be met from current income exists for many retired Irish people. Thus, caution is required in a superficial reading of comparative data.

One of the mooted policy solutions to the challenge of greater private pension is to release a part of the cash (equity) tied up in a residential property through Equity Release Schemes (ERS). Such schemes, despite being present in the Irish market over several decades, represent a niche market. There exist both demand and supply side issues which need to be addressed to make it more effective. At present, the market for ERS in Ireland is dormant and in 2016, no company is promoting ERS as a customer financial solution in the market.

Our aim of conducting this focus group was to assess the level of awareness about these issues amongst the participants. The investigation explored how they perceived ERS as an option to raise their retirement income level. We also probed their preferences among other options for using their house as a source of income and releasing equity from their house.

2.7.2 Method (Process)

We approached an organisation for older people called 'Probus' in Waterford, Ireland. This is part of a nation and international network of clubs for retired and semi retired business and professional people. We also contacted individuals who were active in the governance of a credit union in Waterford. We conducted the focus group at Waterford Institute of Technology with ten participants. The session lasted for approximately two hours. We had one moderator and two assistant moderators to the conduct it. A moderator introduced all the topics to the participants in brief before asking them the questions. We adopted the template provided by TU Delft with some minor changes. We also invited participants to sign the consent forms before commencing the audio-visual recording of the discussion. Afterwards, transcripts were prepared from the audio-visual recordings, handwritten notes and completed questionnaires deployed to solicit participants' experiences and opinions.

2.7.3 Data Collection and Analysis

Table 1 provides a profile of the ten participants in the age bracket of 63 to 75 years. All of them were residents of Waterford. While two of them were less than 65 years of age and two of them were above 75 years of age, others were in the age bracket of 65-75 years. All of them except one participant were already retired and nobody had any

mortgage on their home. Only two participants had a household income above €50,000 and the remainder had an income in the range of €25,000 and €50,000. Table 1 below provides participant details.

Table 7: Profile of the Participants

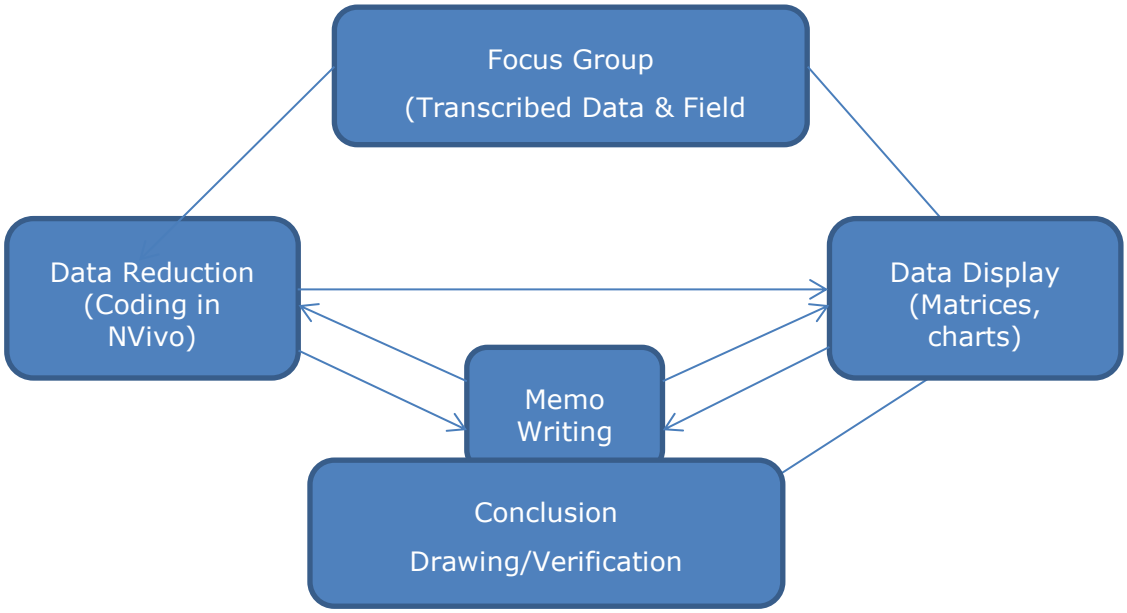
Participant	Age in years	Household Type	Estimated range of Dwelling Value (in Euro)	Household Income range (in Euro)
1	> 75	Couple with at least one child at home	> €200k	€25k to €50k
2	65-75	Other	€100k to €200k	€25k to €50k
3	> 75	1 person	€100k to €200k	€25k to €50k
4	< 65	Couple with children living elsewhere	>€200k	> €50k
5	65-75	Couple with no children	€100k to €100k	€25k to €50k
6	< 65	Couple with children living elsewhere	>€ 200k	€25k to €50k
7	65-75	Couple with children living elsewhere	€200k	€25k to €50k
8	65-75	1 person	€100k to €100k	€25k to €50k
9	65-75	Other-2 persons	>€200k	>€50k
10	NA	NA	NA	NA

NA : not available

According to Cresswell (2013), once data has been gathered, it may be converted into a format that can be organised and examined typically using computer software. Field notes were typed up and transcripts were created. The literature on focus groups data anlaysis was deployed (Nelson and Frontczak, 1988; Wilkinson, 1999, 2004),and a systematic approach was taken which involved cycles of coding, memoing and data display. (Krueger and Casey, 2014; Miles and Huberman, 1994). This is illustrated in figure 1 below. As the research had some pre-determined themes, but was also open

to new emerging themes, a combination of deductive coding (pre-determined themes) and inductive coding (emergent themes) was employed (Patton, 1990).

Figure 1 : Analysis Process



Source: Adapted from Miles and Huberman, 1994

The pre-determined themes related to home ownership, pension and equity release products and emerging themes related to the role of the family and product knowledge or experience.

2.7.4 **Findings**

2.7.4.1 Home ownership/current housing situation

What were the reasons for buying a house/flat instead of renting it

By analysing the responses, It is observed that the reasons for owning a house in Ireland range from traditional or cultural reasons to being part of the money saving process or as a pot of value which would appreciate in the future. While many participants deemed home ownership to be traditional, one of the participants considered rent as dead money thereby justifying investing in a house. One of the participants (participant no. 7) came up with a different reason, saying that the quality of the product (house) available to rent was inferior to that of building a house. He also mentioned the legal system favouring landlords in the early days. Participant no. 4 summarised it quite well with the following quote:

"I think looking at the history of land ownership in Ireland, I think, it could probably (be) terribly deep into our roots and, we own where we can. Bearing in mind, until the Land Acts (late c19th early C20th), we were tenants. And very many instances, in medium to small farms, you were almost tenant at will. And I have no doubt that is in our genes and will be in them for many generations, I have no doubt the insecurity of the tenure moved us to house ownership or property ownership. And I think it comes to us very deep. But I think deep into our genes, ownership is important and passing it on. Whatever way you pass it on."

How did you finance the purchase/building costs of your flat/ house?

Participants had borrowed in the range of 80-90% of the property cost when buying their first residence. Some of them clearly mentioned that there was never a 100% mortgage available in the market when they were buying property (in contrast to the pre financial crisis market conditions in the Irish market). One of the participants mentioned that regarding house deposits, i.e. the 10-20% not borrowed, this finance came from their own savings as nobody provided any help 15 years ago. Everybody nodded in agreement to that.

2.7.4.2 Pensions and retirement Income

To what degree people rely on different sources of retirement income as mentioned in Table 2

According to the ranking (see table 2 below) provided by the participants, occupational and state pensions are a significant source of retirement income, followed by private pension insurance. Social benefits and family support are the least ranked options. Housing (the house one lives in) is ranked at number 5 which means that it is not being used to a significant extent to augment other sources of retirement income. This shows a significant economic potential for using housing equity to form a part of retirement income, although its realisation will have to take cogniscence of social priorities and preferences.

Table 8: Source of retirement income in terms of importance

(1 for highest proportion of retirement income and lower rankings accordingly):

Options	**Rank**
State pension	2
Occupational pension	1
Private pension insurance	3
Housing (the house you live in)	5
Family	7
Other properties (rental income)	6
Social benefits (e.g. social assistance, unemployment benefits, housing allowance)	8
Other assets	4

Are you happy with your current retirement income (compared to what you expected)? Is it sufficient to live a decent life? How do you expect your retirement income will develop (measured against inflation). Why do you expect this development?

When asked about their current retirement income compared to pre-retirement, many of them realised the importance of health and termed money of secondary importance. Only one participant said that it is difficult to live on just the state pension, while one of them counter-argued and said that one can still live a decent life on state pension with other benefits such as free travel provided by the government. In the words of the participant no. 8:

"I would say generally, if you have enough to live on and are comfortable, you are living well. But the health is your wealth."

2.7.4.3 The role of Housing Equity

Attitudes to forms of housing equity withdrawal (vignette)

The participants were presented with a vignette to prompt expression which would reveal their attitude to forms of housing equity withdrawal. The case study is as follows:

An older retired couple (around age 70), without children, lives in a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners of the house (they have already paid off the mortgage). The man as part of this couple is having health problems. His health insurance partially covers the health care expenses. The retirement income of the household is insufficient to meet additional expenses. The couple is thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following four options:

- Sell the house and move to a rental dwelling;
- Sell the house and move to a smaller home ownership dwelling;
- Sell the house and rent it back (sale- and lease-back);
- Stay in the house and use a financial product to extract the housing equity.

The responses indicated that downsizing (See table 3 below) was the most preferred option followed by the sale and lease back option as a second and ERS as a third choice. Renting a room was the least preferred option. Although the sale and lease back option is similar to the ERS sale model, this ranking suggests that there seems to be a latent potential for an ERS type of product.

Table 9: Ranking of options for leveraging income/capital from residential property

Options	Ranks
Sell the house and move to a rental dwelling	3
Sell the house and move to a smaller home ownership dwelling	1
Sell the house and rent it back (sale and lease-back)	2
Stay in the house and use a financial product to extract the housing equity.	3
Rent out an extra room.	5
Swap the house with the relatives/community members/friends.	4

Is there sufficient supply of rental dwellings available? Does the same supply situation apply for smaller home ownership dwellings?

When asked about the availability of rental dwelling, everybody agreed there was not sufficient supply. A few participants suggested moving into a residence where one could have a home and while nursing home would also be part of the residential complex. In effect this would offer a transition for an individual whose health deteriorated over time. There was a sense of there being insufficient choice in attractive small residences suitable for the elderly insofar as only one new development in the city (population 50,000) was singled out favourably in that regard.

Will it be easy for the people in the vignette to sell their house?

When asked about the ease of selling a house, Participant 7 from his experience said that:

*"Somebody may have a house that theoretically may have had an enormous amount of money (equity), not anymore. But what you are buying has also dropped a lot. So the scenario is not (that) different (*from the pre financial crisis situation*). Like there is not (much) money moving around."*

In essence, this suggests that less capital may be released now if trading down or using equity release. This may not be a problem when providing a replacement residence, though capital released for income purposes will not enjoy similar spending powers insofar as the cost of living did not fall as much as house prices did.

How important is it for older people to be able to stay in their current house until they die?

Most of the participants recognised the fact that it is important for older people to stay in their community, if not the current house. Participant no. 6 summarised it well:

*"No, I think people might want more to stay in the community basically, you know, the familiars or surroundings. Like for instance, my children they are probably not going to live in Waterford. If God forbid, my wife dies, I will be on my own in a four bedroom house. What do I want a four bedroom house for? I will go down to John's College (*a new voluntary housing association development for the elderly*) . I will sell the house."*

Would you consider yourself using one the four options under discussion here? If so, which of the options has your preference and why?

When asked about using one of the options to release equity from their home, almost everybody agreed that they would prefer to sell their current house and buy a smaller house giving downsizing the first preference very clearly. However, all recognised the shortage of such dwellings to move in. In the words of participant no. 9:

*"The buildings they have done over the years. Even the corporations, they built 400 houses in one big area and then they built other houses and they are all same type of houses. If only they could look at the future and say instead of building all three or four bedroom houses; we build a two bedroom house along with the three bedroom and the four bedroom so that you have a mixture. In the area that you are having to live, there are no houses of different sizes where you would move down to the area you are living. That's a bit (*short sighted*) you know."*

This sentiment expresses a desire that housing developments prospectively should offer the community a range of residence sizes and this would facilitate a life cycle approach to community living, enabling transitions commensurate with age , family size and an integrated community with several age cohorts.

2.7.4.4 The role of the family and the obligation to bequeath

What do you think of this topic? How important is it for you to leave an inheritance?

Except for one participant, most noted that it is desirable but not essential to leave an inheritance. Many participants noted that most business assets (such as farms, factories) are more likely to be transferred to the next generation rather than personal assets. This represented an expression of intergenerational trust: business assets were not for consumption but rather represented a livelihood for the next generation. Participant no. 3 mentioned education as representing another form of inheritance and stated the following:

"I think it all looks at how the family is living. Say if you are a doctor or a teacher and that's how you earn your living and your children have the different qualifications or the same, they don't require a capital to make a living. They do not require the land or the machinery as some families do. So it depends on the circumstances of the family."

Many other participants also agreed with him.

What do you plan to leave to your children or nieces/nephews?

Most of the participants had a plan to leave something for family members. Some even considered leaving a legacy for the individual participant's carer or even neighbours, if they cared for them or helped them in the person's retirement. Here was some sense that if an individual had given their family a good start, then providing significant legacies were less important.

To what extent is your desire to leave an inheritance to your children a reason for not releasing housing equity and spending the resulting proceeds?

When asked about their plan to leave the inheritance affecting their decision to release equity from the house, most nodded in agreement. Participant no. 6 stated that:

"*It could. I was going to say I think most people don't want to die penniless. Not as much. Ok. You don't want a situation rather where the money runs out and you run out at the same time. In other words you would like to think it's a legacy type of idea. You would like to think that you left something after you for family or relatives if you did not have children yourself."*

There was some desire not to leave without some bequests, however modest. Leaving something on death of course means that you had some resources available prior to death. It is difficult to judge when no resources at all will be needed. Thus the precautionary principle might dispose an individual to preserve some level of assets in order to support a quality of life, even at the end.

2.7.4.5 Experience with/knowledge of any equity release products

Do any of you use, or have you used, housing equity release products or second mortgages? Do you know which equity release products are currently available in the market?

While nobody had any direct experience with an equity release product, some of them had heard about the concept. Only two participants explicitly expressed this opinion, while others just nodded in agreement. There was a modest level of awareness of recent media discussions regarding equity release.

Where would you look for information on the available housing equity release products?

When they were asked about taking advice on ERS, different answers were given ranging from using a financial advisor to Google, to solicitors or accountants but nobody suggested a banker as an option. Credit unions were a most trusted entity for financial advice. However, credit unions do not currently operate in the pensions market and this was also commented on by participants. The group's composition may have a bearing on this view. A lack of trust in bankers was clearly apparent and was articulated by some members of the group.

2.7.4.6 The relationship between housing equity and pension provision

Do you think there will be an interest in, or need for, such a comprehensive lifelong product (starting with mortgage repayment and finishing with housing equity release)? If so, for which group of people will this product be interesting?

Most of the participants agreed that there is going to be more and more need for such ERS products for the very noble reason quoted by participant no. 6.

"Anybody who hasn't substantial private pensions or a public service pension and a lot of people don't have any pension. Some have pensions, but have pots (that*) proved to have turned out to be small, smaller than they originally anticipated. So then it might*

be as we already agreed in the first half, that an old age pension on its own might not be sufficient."

This suggests that individuals may not appreciate how much they need, how well their pension performs, what income can be obtained with their pension fund on retirement and beyond.

What are the necessary conditions for ERS-schemes to be successful and to be attractive for you as a consumer? What should be the role of the providers of products and the role of the government and the regulators?

Most participants saw a role for government and a regulator. All agreed that regulators have a bigger role to play. Government should be active in this domain and regulate with an appropriate level of knowledge with respect to the market (knowing the products, the activities as they are offered and conducted in reality). Participant no. 6 again dominated the discussion and clearly discussed the importance of government. The following are his words:

"Very big role I think. Look given the history, we used to have faith in the bankers. People invested in bank shares because they thought it was a solid form of an investment it turns out we would have better off invested in used cars."

"The government? Well, it's hard to try and regulate the way the industry works. It's a hard thing because often the regulations, even when they are brought in with the best of their intentions, they are often only an impediment in the works. Like talking about the insurance agent, I have mentioned him I trust him personally. But he is heavily regulated."

The role of the Local Authority ie local or regional government was also considered as important. Participant 1 mentioned about poor regulation resulting in the 2008 crisis. Not surprisingly, everybody felt there was a need for a pension scheme of some variety which should be offered if not mandatory from an early age. Regular payment is important. Some degree of compulsion is needed as everyone should pay and it is in their interest to do so.

The product that we are thinking of provides a monthly supplement to the retirement income. However, there are also equity release products that provide a one-off lump sum payment. What would you see as the most attractive option? Why?

In answer to this question, opinions were divided between the participants while most of them preferred regular payments or an annuity.

2.7.4.7 Trusts in the providers of housing equity release products

Could you indicate with a grade from 1 to 10 how much trust you have in each of these potential providers?

Not surprisingly government was the most trustworthy entity (see table 4 below) followed by retail credit/home reversion firms (a good sign as the potential product providers) and occupational funds. Banks were clearly the least trustworthy entities once again. A good track record in dealing with consumers is a critical ingredient in building trust in providers.

Table 10: Trustworthiness ranking of product providers

(1 highest , 2 next highest, etc)

Providers	**Grade**
Banks	5
Insurance companies	4
Retail Credit/Home reversion firms	2
Occupational pension funds	3
Government	1

2.7.5 Additional Observations

Participants were invited to make additional observations over and above what had been probed and discussed in the earlier phase of the dialogue. They reiterated advocating a mandatory approach to private pension provision for everybody not currently covered. They also spoke about issues of tax relief on pension provision as well as some Canadian firm entering the Irish market for developing and renting the property on behalf of the investors. In the words of participant 2:

*"I actually take private pension provision. It should be compulsory for everybody. They (*suppliers*) actually take the people's need (*into account*) even if it's only going to supplement their (*individuals'*) state pension. They (*individuals*) need something even if it's only small."*

Participant 4 similarly stated:

*"I think, ok, I have my work pension and a state pension there. I am very lucky, but there are people who have social issues. And there are people who are dependent only on the state pension. And, I think as a state in Ireland and in the European Union, that there should be (*greater provision for retirement income*) , the exercise you are feeding into it. That from the day we go into work that there be a little bit put forward. When I say State pension, it is managed entirely by a separate control thing. That's from the day you start working, a certain percentage is taken from everybody."*

A couple of participants also spoke about having a radical look for housing policy in terms of ease of buying a house for young people and ease of releasing equity, when required. Participant 6 very nicely summarised the discussion and spoke about the connection between the provision of housing and provision of pensions.

"Just following on to what everybody has said. There seems to be a huge connection in the future, a huge connection between provision of housing and the provision of pension because they are the two huge problems now. And the planning, the way planning is done in Ireland for last 40-50 years has got to change. It should be, it has to be not leaving it up to the developer to decide and banks even to decide where the money will go in you know. The government has set a much bigger part, but a competent government. This is the thing. Say the government should control this all very democratic, but the government's competency to do this work is certainly needed. But there is a huge connection, as come out of all this discussion, between the provision of housing in the future and the provision of pensions in the future."

The thrust of this is that a more longitudinal approach is required to develop public policy in housing and pensions and that a purely market based approaches which involve

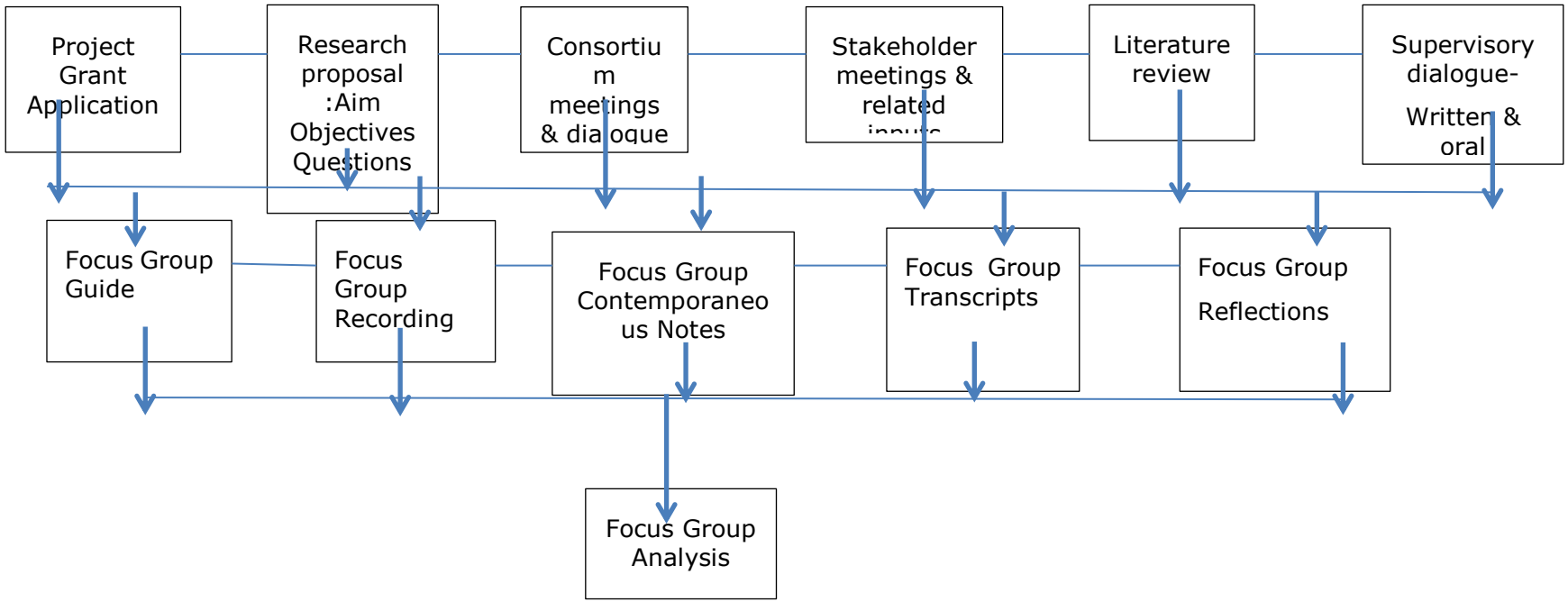
considerable cyclicality and capital market orientations will not be sufficient holistic in process nor in outcome.

2.7.6 **Conclusion**

The analysis of the transcripts revealed that there is a strong awareness amongst the elderly people with regards to retirement issues. Many of them still relied on the state pension and an occupational pension as their main sources of income. Most participants attachment to their homes did not seem to represent an obstacle to using them for income generation including equity release. They were open to the various possibilities of releasing equity in order to achieve a better lifestyle post-retirement. The group in general bought their homes when they were younger, but since most of them are living either on their own or with a spouse, they do not need to own the residence anymore. It is more important for most of them to stay in their community rather than their current house. Therefore, in general, downsizing was the first preference for most of them. This would provide them with the capacity of remaining within their community and their present milieu.. This is not surprising. As far as the motive to bequeath was concerned, they all had a desire to leave something, but it was not essential as they preferred better a lifestyle over this objective. Some of them also considered providing higher or technical education for their children as another form of inheritance. The group indicated a receptiveness to the idea of using ERS products and wanted government to play a large and constructive role with regards to the regulation of such products. Having burnt their hands in the 2008 crisis, the participants would not want banks to provide these kind of products and instead preferred the government and/or retail credit/home reversion firms. Overall, substantial financial literacy was shown by participants consistent with their level of retirement income, level of education, employment record and home ownership. They also emphasised that a sound knowledge of the an ERS product was a prerequisite for its deployment, and an individual would need to seek advice from a trusted source.

2.7.7 **Appendix 1**

Planning & Design for the generation of Focus Group Evidence



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2.8 Ireland *Focus* Group 2 (15 December 2016)

2.8.1 Introduction/Context

Held at 10.00 a.m. - 12.15 a.m.; Venue: Chartered Accountants House, 47- 49 Pearse St, Dublin 2. This document represents a brief summary of a second focus group conducted in Dublin as a part of the pan European project of *"Integrating Residential Property with Private Pensions".* It is based on the notes taken during the conduct of the focus group. Predetermined themes are shown as headings in bold and underlined. The word 'most' is used when majority of the participants had agreed with the statement(s) made by one or more participants and it does not represent any statistical significance whatsoever.

There were three researchers present during the conduct of the focus group. One of them played a role of a moderator, while the other two helped in taking the notes as well as providing an instant reflection of the score card results.

2.8.2 Participants Info.

Seven participants (five men and two women) participated in the focus group. Each participant got a description of the project, a time schedule of the focus group and a consent form to sign. Five participants were aged between 55 and 75 and one aged above 75. One female participant missed the introduction part and did not fill out the questionnaire at the end. All the participants were given consent form. Each each of them owned at least one property and none of them had any mortgage outstanding.

2.8.3 Home ownership/current housing situation

Home ownership is a cultural norm, part of Irish psyche and come from the famine times in the C19th. There was a social pressure to buy a house when participants were young and had probably started their careers. Some of the participants pushed themselves to get as much mortgage as they could afford in order to get on the property ladder.

Rent was/is considered as dead money. The mortgage repayments in were less than the rents in most cases when participants had bought or wished to buy their homes.

Most participants remembered buying a house with a 75% mortgage. one participant struggled with paying the deposit and mentioned of using a bank overdraft to arrange for the deposit. Others might have had some parental financial assistance in terms of a loan or a gift. Most participants agreed on getting a mortgage of about two and a half to three times of their annual income and found it quite restrictive. A sudden surge in inflation helped to pay off the mortgage relatively easily as incomes rose in conjunction with inflation and the real value of the debt was eroded.

The motivation for owning a second property differed such as renting out to earn income, for convenience, to family/relatives to stay, to provide for the next generation or to have an address in a catchment area for schools.

Most participants recognised the awareness amongst the younger generation that the latter group may never own a house and thus would rent indefinitely. Timing plays a key role when individuals consider buying a house. House prices move in cycles and individuals seek to buy either side of the low range of the cycle.

2.8.4 Pensions and retirement Income

According to Table 1, an occupational pension (same as the Waterford focus group) is a significant source of retirement income followed by the housing (imputed rent savings). A state pension is the third most significant source of retirement income. Social benefits and family support are the least ranked sources (same as Waterford).

Most of the participants that were retired and were content with their current retirement income. Some spoke of the capacity to have a better lifestyle, their lifestyle activities, as the determinant of whether income was satisfactory or otherwise. One of the participants spoke about the existing ERS product and felt that the existing interest rates are way too high, making reference to an 8% rate for such products and a few others agreed with him. This reference was made after some discussion about car loan rates and the disparity between the rates from different institutions /sources for such finance.

Table 1: Source of retirement income in terms of importance (1 for highest proportion)

Options	Rank
State pension	3
Occupational pension	1
Private pension insurance	5
Housing (the house you live in)	2
Family	6
Other properties (rental income)	3
Social benefits (e.g. Social assistance, unemployment benefits, housing allowance)	6
Other assets, ……..	4

2.8.5 The role of housing equity

Vignette:

Table 2: Choices regarding the generation of income from residential property (for medical expenses) (1 for highest rank and accordingly)

According to the table 2, 'rent a room' was the preferred option. (This was in contrast to the Waterford focus group as downsizing was the first choice there.) Using ERS type of products was the second choice, followed by downsizing as a third one. Sale and Rent was the least preferred choice, perhaps due to higher rents in Dublin or due to lack of suitable property in the neighbourhood where participants currently live. These rankings suggest the latent potential for an ERS product. Participants seemed aware about ERS products not being available in the market at the moment, even if they wished to use them. The unavailability of ERS from one institution, Bank of Ireland, was specifically mentioned.

Options	Ranks
Sell the house and move to a rental dwelling.	6
Sell the house and move to a smaller home ownership dwelling.	**3**
Sell the house and rent it back (sale- and lease-back).	**4**
Stay in the house and use a financial product to extract the housing equity.	**2**

Rent out an extra room.	**1**
Swap the house with the relatives/community members/friends.	**5**

Participants would change their preference if the money was needed for leisure purposes, and downsizing would make more sense to them in this case. They spoke about building starter homes for young people.

- People would want to live in their community (Most agreed). However, it should be affordable to maintain their current houses. Some participants seemed receptive to living in apartments, if needs be. Participants generally were averse to renting in retirement, again as indicated by their preferences in the vignette.
- Participants spoke openly about renting a room as indicated by their preferences in the vignette. Some participants had been used to having rented a room to university students earlier.
- A further possibility that was mentioned was building a small home in the garden of the existing residence which could be occupied by an elderly person or couple. This would open up choices regarding letting the main property, selling the main property or having a family member (next generation) live in the main property.

2.8.6 The role of the family and the obligation to bequeath

There were mixed views on the significance of providing an inheritance and the use of housing wealth for that purpose.

One participant mentioned their preference for financially hard pressed couples to use money for themselves rather than pass it on to their sons and daughter who perhaps were more comfortable or had improved prospects.

Another participant spoke about the importance of equity between family members while another mentioned that needs or care provision might determine the division of bequests among successors.

A further participant referred to the lifetime transfer of property as the next generation might not be able to get a property due to income volatility, the availability of mortgage finance and the price of a house.

2.8.7 Experience with/knowledge of equity release products

None of the participants had any experience of using an ERS product, though some of them had heard of it.

Participants showed a preference for using independent financial experts, trustworthy family members, or using the web (e.g. askaboutmoney.com). They would certainly not use banks. This clearly shows a lack of trust amongst participants for banks.

2.8.8 The relationship between housing equity and pension provision

According to most participants, the reasonable rate of ERS type of products or possible policy solution (for integrated product) should not be far excessive than the normal prevailing mortgage rate. It should not be double as it is prevailing currently.

Most of the participants would wish to have a monthly income rather than a lump sum. However, it also depends on the cost of the finance. Participants seemed confused about the terms of such products. One of the participants spoke about having a product in which monthly sum is invested in a fund over the working life of a person. He seemed to be aware of the phenomenal compounding returns, it could generate. According to

him, the money should not have to be invested in just a brick and mortar. Most agreed with him.

There was a mention of behavioral issues in the case of young people. One individual said she would not have thought about retirement income planning as a young person as it was too far away and immediate needs were a higher priority. As in the Waterford focus group, most of the participants in Dublin focus group also felt the need for some pension scheme being in place at an early age for young people. Some of the participants suggested to impose some degree of compulsion on young adults, and further added that everyone should pay and it is in their interest to do so. One participant explicitely spoke about the form of incentive such as some contribution by a government or tax relief for young people to do so. Few others nodded in agreement.

2.8.9 The providers of housing equity release products

As can be observed from Table 3, the Government is a first choice as a provider of such products (same as the Waterford focus group). Occupational pension funds is a second choice, followed by the other providers such as credit unions. Banks and insurance companies are again ranked the lowest (Same as Waterford) showing the lack of trust in these types of financial institutions. The financial crisis has cast a long shadow over financial services.

Table 3: The trust in the providers of ERS products (1= lowest trust and 10= highest trust):

Providers	Trust Rank
Banks	4
Insurance companies	5
Retail Credit/Home reversion firms	4
Occupational pension funds	2
Government	1
Others (e.g. Credit Union)	3

The following were some of the other comments by the participants.

- There is no guarantee that the bank is actually secured. Government is the safest form of provider because if one government does something, it is very difficult for the subsequent government to withdraw.
- We should follow the American system of working longer. It just takes the burden off the pension system. It might involve a fresh job or career on retirement from an original position.
- One of the fundamental problems in this country is the expense of medical treatments. There was some discussion regarding individuals eligibility for free and timely health care provision and the impact property ownership might have on such eligibility. In France, it was observed, they believe in looking after their people.

2.8.10 **Last round of comments**

In the words of one of the participants, "at this age, I am looking at the lifetime plan where people don't have to leave their neighborhood". Other participants nodded in agreement and mentioned that there should be a provision of communities in which two to three generations could live together, as opposed to having communities which consisted almost entirely of elderly people or young couples with children.

2.8.11 **Appendix**

Participants	Age	Household Type	Est. Value of the Dwelling	Household Income
M1	65-75	Couple with children living elsewhere	Between €200k and €500k	Between €50k and €100k
F1	< 65	1 person	Between €200k and €500k	Between €25kand €50k
F2				
M2	< 65	Couple with at least one child living at home	Between €500k and €750k	Between €50k and €100k
M3	<65	Couple with at least one child living at home	Between €500k and €750k	Above €100k
M4	< 65	Couple with at least one child living at home	Between €500k and €750k	Above €100k
M5	>75	Couple with children living elsewhere	>€750k	Between €50k and €100k

Note: M= Male; F= Female.

2.9 Ireland Focus Group 3 (26th August 2017)

2.9.1 Introduction/Context

Time: 10.00 a.m. - 12.30 a.m. Venue: WIT Arena, Waterford. This document is a brief summary of a third focus group conducted in Waterford as a part of the pan European project of *"Integrating Residential Property with Private Pensions".* Predetermined themes are shown as headings in bold and underlined. The word 'most' is used when majority of the participants had agreed with the statement(s) made by one or more participants and it does not represent any statistical significance whatsoever.

There were three researchers present during the conduct of the focus group. One of them played a role of a moderator, while the other two helped as assistant moderators. The moderator presented an outline of the project and of the progress to date. This focus group was significantly different from the last two in terms of its content. While the previous two focus groups were conducted before the proposals for solutions were developed; the third focus group had a primary aim of receiving a feedback on such proposals. The other objectives of the third focus group comprised of obtaining participants' views on existing ERS products and good standards/characteristics for such products, ways of raising awareness about such products as well as suggestions for increase trusting in suppliers and the supply process.

2.9.2 Participants' Profile

10 participants (6 women and 4 men) participated in the focus group. Three young participants were in the age group of 30 to 40, one middle-aged participant was in the age group of 40-50 and six elderly participants above 55 years of age represented well diversified group. While almost all elderly participants owned property, in the young cohort, some did and some did not. Each participant got a description of the project, a time schedule of the focus group and a consent form to sign. All the participants were given a copy of the signed consent form to take away.

2.9.3 Current ERS models

Participants were provided with an explanation of the loan and sale model versions of ERS. Thereafter, they were given cards to rank their preferences for utilising the equity extracted from such products if they were to opt for ERS products. As can be seen from the Table 1, their first preference was to help family members followed by payment for medical expenses and thereafter pay for a second home. Given the last rank to the option of utilising home equity for day to day expenditure, it would be fair to say that participants may be comfortable with their ability to meet basic needs of day to day expenditure without extracting equity from their home.

Table 1: Options for utilising home equity (1 for highest proportion)

Options	Priority Rank
Day to day expenditure	**5**
Medical expenses	**2**
Help family members	**1**
Buy/pay mortgage for a second home	**3**
Any other purpose	**4**

Next, participants were asked about the features of good ERS products. This was to understand what standards or characteristics are more important for the design of such

ERS products. This information might be useful in rendering existing ERS products more attractive to the consumer market. As Table 2 shows, simplicity of such products tends to be the most important criteria for participants. From the rankings given, it can be inferred that other standards such as right to tenure, information on costs, suitability of such products and NNEG. The standards which were least important are fixed interest rate, early repayment options and flexibility to move home.

Table 2: Product standards / characteristics

Standards	Ranking
Fixed Interest Rate	7
variable but capped	6
Right to tenure	2
NNEG	4
To be able to choose your own solicitor	5
Fair and simple illustration of your plan	1
Information of all costs and who will bear them	3
Tax implications	5
Early repayment options	8
Flexibility to move home	8
Whether product provided is suitable for your needs	4

Reasonable interest rate for ERS products

No direct response was given for this question although some participants were sceptical of paying any premium for interest rates on such types of loan.

Fiscal incentives for ERS products

Participants clarified their doubts about the types of fiscal incentives. One participant responded to this and said that fiscal incentives demise the actual purpose of the ERS which is to reduce the burden on the State. In his words,

"The only problem I see, the name suggested increasing your pension. The whole point of this is to reduce dependence on the State. So that idea will be kind of against what is it all about. So, I think whole point of this exercise is to reduce people's expectation of the State. "

2.9.4 **Awareness/**T**rustworthiness**

Preferable ways of raising awareness about ERS

Most participants would prefer brochures or newspapers rather than TV ads. A logical explanation given for this by one participant was that people skip the ads while watching TV. Participants also believed that the financial institutions would not give neutral advice. Website and social media would be preferred by younger people.

Participants were asked whether more protection is needed for the customers and how could it be provided. (Currently the Central Bank (Consumer Code) and the Competition and the Consumer Protection Commission serve to protect consumers).

In response to this, some participants expressed the view that some independent person from government or some single point of contact is required.

2.9.5 Alternative proposed solutions (Product models)

Before asking questions, a moderator explained each alternative proposal that were framed by the research consortium. Participants were then asked to agree/disagree with the different features of the solutions and were also asked to give overall ranking to the solutions.

The results shown in all the below mentioned tables is simply the mean of the preferences given by the participants. For example, 1 was assigned to strong disagreement, 2 was assigned to moderate disagreement, 3 was assigned to neutral (neither), 4 was assigned to moderate agreement, 5 was assigned to strong disagreement. Thereafter, mean is calculated to show the final preference from all the participants. If the mean is in decimal, the nearest number is chosen. For example, 3.6 is considered as 4 hence moderate and likewise 3.4 is considered as 3 hence neutral (neither).

Table 3: 1. Lifetime Lease with parallel pension plans

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
		1	2	3	4	5
1	A lifetime lease would be attractive to young people on low incomes and can't manage (or don't want) mortgage.				✓	
2	A lifetime lease will mean rents lower than the market rate.				✓	
4	The government would be keen to subsidize this type of arrangement.			✓		
5	It doesn't matter that the customer does not share in house price appreciation.		✓			

Overall Grade: Good

As can be seen from the table 3, participants agreed with the fact that lifetime lease could be attractive to young cohort who cannot afford a mortgage and that a lifetime lease would mean a lower rent. Participants were not sure whether government would be keen to subsidise this type of arrangement. However, they tend to disagree with the fact that it would not matter for the customers not to share in house price appreciation. Overall, they gave a *good* ranking to this solution.

Additionally, participants expressed their concern about a lifetime commitment as well as not being able to own the house. They also showed a concern for any future contingencies.

Table 4: 2. Integrating a traditional mortgage and reverse mortgage into one product

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
		1	2	3	4	5
1	This product would be attractive to first-time buyers.				✓	
2	Young people need help with home buying.					✓
3	Young people need help with saving for their retirement.				✓	
4	A commitment to using their home to support their retirement is too much for a young home buyer.				✓	
5	I think mortgages and retirement saving should be kept separate.		✓			

Overall Grade: Good

According to Table 4, participants agreed that this type of arrangement could be attractive for first-time buyers. They were in strong favour of giving support to the young people for buying an accommodation and providing some kind of help with their retirement saving. Although they do believe that a present commitment to using their home for retirement is too much for young buyers, they do believe in the concept of merging mortgage and retirement savings. Overall, they gave a *good* ranking to this solution.

Table 5: 3. Shared home ownership and tenant's fund

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
		1	2	3	4	5
1	This product would be attractive to those on low incomes				✓	

2	I like the idea of owning a share of a real estate fund instead of a house.			✓		
3	I think this would work financially.				✓	
4	As this approach relies on social cooperation it is likely to be successful.				✓	
5	This is a good way to save for retirement.			✓		

Overall Grade: Very Good

It can be inferred from Table 5 that participant liked this idea to a great extent. They established that this product could be attractive to modest income earners and seems financially feasible. There is also an element of social co-operation that the participants liked. Though, they were indifferent to the idea of owning a share of real estate fund instead of a house and the idea that it is a good way to save for the retirement. Nonetheless, they gave an overall grade of *very good* to this solution.

Table 6: 4. Pension savings post mortgage payment

		Disagree		**Neither**	**Agree**	
		Strongly	**Moderately**		**Moderately**	**Strongly**
		1	**2**	**3**	**4**	**5**
1	This product would be attractive to middle-aged people on modest incomes.				✓	
2	I like the flexibility of switching between housing and pensions.					✓
3	Housing and pensions should be treated the same way tax wise.				✓	
4	People will pay high charges on small pension funds.			✓		
5	People would have other uses for their cash after repaying their mortgage other than pensions like this.				✓	

Overall Grade: Very Good

As far as idea of continuing their mortgage instalments post mortgage repayment is concerned, participants again considered it quite attractive to middle-aged people on

modest incomes. They strongly liked the idea of flexibility of switching between mortgage and pension. Participants were of opinion that housing and pension should be treated alike for providing fiscal incentives. Although they agreed that people would have other uses of cash after repaying their mortgage, they gave overall grade of *very good* to this solution.

Table 7: 5. Government agency as an intermediary (Andrew and Oberoi, 2014)

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**1**	**2**	**3**	**4**	**5**
1	Variable interest rates on equity release schemes would be OK.				✓	
2	My house value increases at the same rate as other houses in my region of Ireland.				✓	
3	I think there would be more money left as an inheritance with this product.				✓	
4	I like that the government is involved in this product.					✓
5	Providers won't lower their interest rates even with this product.				✓	

Overall Grade: Very Good

Again, from Table 7, it is quite clear that participants very much liked the solution of government agency working as an intermediary. They agreed with the idea of variable interest rate on equity release schemes, with the fact that their house value would increase at the same rate as other houses in the region, and that there would be more money for their heirs. They showed a strong liking towards the fact that the government is involved in this product. They gave an overall grade of *Very Good* to this solution.

At the end, participants were given a following scenario.

Vignette discussion

A young couple (in their early 30s and both working) is living in Dublin. They have a take-home pay of 4000; they are currently paying monthly rent of an 1800. Each runs the car. They wish to obtain a long-term home near where they work and could expect to pay 340-350k for the house.

Participants are invited to consider which of the product options might be suitable for this couple.

- Lifetime Lease with parallel pension plans
- Integrating a traditional mortgage and lifetime mortgage into one product
- Shared home ownership and tenant's fund

None of the participants gave a relatively direct answer to this question and following ideas were expressed.

"Not everyone could live where they would want to live. Buy where they can afford. As simple as that.

"Like where I work a lot of people travel for an hour every day."

"It is down to the supply of right kind of accommodation which is not there."

Participants believed in owning a residence where people could afford. Also, they mentioned about the shortage of availability of the right types of accommodations.

WIT Team, October 2017.

2.10 Italy: Focus Group 1 (Parma)

2.10.1 **Introduction**

Population aging is one of the main features of western societies and, especially, of Italy. This country is, in fact, characterized by an old age dependency ratio of 33.1, the highest among the EU country member states. Forecasts are not encouraging as it results that this ratio should increase to 42.6 in the next 30 years and that the average age should increase from 43.2 to 49.8 (Istat 2011).

The Italian pension system will be facing the challenging management of the consistent increase of the pressure of old age population over the working age population. In order for the pension system to be sustainable and to grant decent standards of leaving at the end of their working life of individuals, it is necessary to develop further the supplementary pillar of the Italian pension system. Households' saving decisions and the investments portfolio of retired are a topic of extreme importance for the design of the economic and social policies.

In such a context, it is worth noticing that households dwelling is a main financial resource in most of the European countries. In countries such as France, Germany, Italy, and UK household dwelling represents between the 40% and 50% of the total personal wealth (OECD 2000; Boone and Girouard 2002). The last report released in 2013 by Bank of Italy on the wealth of Italian Households informs us that the household main residence represents the 56.7% of the total household wealth. This amount increases with the age of the household head. Lefebure et al. (2006) estimates that household dwellings represents about 80% of the total wealth of the elderly living in the Mediterranean countries. More in general, in Italy the home-ownership rate (73.2%) is the highest with respect to the EU country members with the highest GDP.

Given this background, this project aims at providing some economic and policy guidance to the EU for the development of new supplementary pension products that are mainly based on house equity. The data above emphasize that Italy could be among the most interested countries in adopting such products; although in this country such schemes are not very popular. *Prestito Vitalizio Ipoteario* is the only kind of ERS product that exists in this country; it was introduced in 2005 and regulated in 2015. It is a form of long-term non-finalized loan that must be refund after the contractor's death and target people aged 60 or older and owner of a residential property.

In order to understand whether similar products can be successful it is important to know the *status quo* of the pension market, and to understand the attitudes of the supply side and demand side with respect to these kind of initiatives. The focus groups represents an essential part of the project that will help to acquire an in-depth knowledge of the potential demand. In particular, the focus groups will allow to understand the opinions of households and individuals about such products and their possible attitudes and reaction to the introduction of such schemes. The focus group will also allow to evaluate the knowledge that individuals have on this topic. We plan to organize three focus groups. This summary concerns the first focus group that took place in Parma on the 15th of September 2016. The details of this focus group are reported in the following sections.

2.10.2 **Methodology**

The first focus group was run in Parma, a city in the Region Emilia-Romagna in the North of Italy. The participants were contacted through Confconsumatori located in Parma. Confconsumatori is one of the main Italian consumer associations. All the participants had already interacted with this association before the focus group for different reasons. The meeting lasted three and a half hours and was conducted by one moderator with the help of an assistant. Following the request of the participants, the coffee break was shifted at the end of the meeting. The moderator started explaining

the main aim of the project and its structure. In the meanwhile, the assistant distributed a folder to each participant containing the cards, a pen, some white sheets to take note, and a gift card of 15 euros to be spent in a bookstore. The moderator then moved to the description of the structure and aims of the focus group. For each subtopic the moderator made an introduction and asked the participants to express their opinions. The template provided by TU Delft was followed throughout the session.

2.10.3 **Data**

15 people attended the focus group: 10 men and 5 women. The participants' details are listed in Table 1. Participants' age varies between 56 and 83 and they are all residents of Parma. 11 out of the 15 individuals have retired while the rest are still working. They are all homeowners but without any outstanding mortgage, either because they bought the house in cash or because they paid back the debt. Most of them (12) live in apartments, 2 participants live in a detached dwellings and 1 in a terraced dwelling. The sample does not show much variability in terms of household income. 11 individuals state their income is about average and 4 that it is above average. There was some variety instead in terms of household composition. 9 interviewed live in a couple with all children living elsewhere, 2 of them with a sister, 1 person lives alone, 2 others live in a couple with a child, 1 person lives in a couple without children, and another one lives with a son and a grandchild.

Most of the participants were interested in this topic firstly because they are worried about their children and the difficulties they will experience in getting a pension. Secondly, they were curious or wanted to know more about equity release products. Participants that already had some knowledge about these products wanted to have more and better information; participants that did not have any knowledge wanted to know them. Moreover, some of the participants were also interested because they have some kind of relation with the potential providers. Last, few of them (about 4) were interested because they are really thinking about using these products because either they do not have children (or have bad relationship with their children) or because they think they deserve to enjoy more money during retirement.

Table 1: Characteristics of the Group

Age	Homeowners	Type of Dwelling	Household Type	Outstanding mortgage	Retired/Working	Household Income
71	Yes	Apartment	Couple with children that all live elsewhere	n.d.	n.d.	About average
80	Yes	Apartment (condominium)	Couple with children that all live elsewhere	0	Retired	Above average (higher income)
76	Yes	Apartment	Couple with children that all live elsewhere	0	Retired	Above average (higher income)
67	Yes	Apartment	Two persons (sisters)	0	Retired	About average

75	Yes	Apartment	One person	0	Retired	About average
56	Yes	Apartment	Couple with at least one child living with them	0	Employee in the public sector	About average
60	Yes	Detached	Couple with at least one child living with them	0	Insurer	About average
66	Yes	Apartment	Couple with children that all live elsewhere	0	Retired	Above average (higher income)
64	Yes	Apartment	Couple with children that all live elsewhere	0	Retired	About average
66	Yes	Terraced dwelling	Three persons (participant +son+nephew)	0	Retired	About average
68	Yes	Detached	Couple with children that all live elsewhere	0	Retired	About average
83	Yes	apartment	Couple with children that all live elsewhere	0	Retired	About average
57	Yes	apartment	Two persons (sisters)	0	Employee in the public sector	About average
61	Yes	apartment	Couple without children	0	Freelance professional	About average
73	Yes	apartment	Couple with children that all live elsewhere	0	Retired	Above average (higher income)

2.10.4 **Findings**

2.10.4.1 Current housing situation and meaning of home-ownership.

What were the reasons for *buying* a house/flat instead of renting it? How did you finance the purchase/building costs of your flat/ house? Do you own any other properties? If yes, what are the reasons for this?

All participants are homeowners and all of them explained that they decided to buy a house instead of renting it mostly because renting would have been more expensive. The second reason that motivated the house purchase was cultural. 2 participants declared that they bought it also for cultural reasons, because living in one's own dwelling was symbol of civilization. Only 2 persons admitted they would have been more in favour of renting because this gives freedom of moving elsewhere, notwithstanding they ended up to buy a house because of some agreements with their partners or because the cultural influence prevailed on the personal feelings. Most of them used a mortgage to buy the house, while two paid it in cash. Those who used a mortgage used it only for part of the house price; the rest was covered using savings and the help of the family.

Some of them (at least 3) have other properties. They bought them as a form of investment, while 1 person bought it because he wanted to go there after retirement.

"*I chose to buy a house because paying a rent seemed to me as throwing money out of the window*".

"*I bought a property for cultural reasons because in the place where I grew up living in your own house was a sign of civilization*".

"*I am in general in favour of renting a house because this gives you some freedom but my partner was against this idea so we ended up to buy an apartment*".

"*I bought a house for cultural reasons. I remember when I was a child that the concept of saving to buy a house was fundamental. As soon as I got married I thought about the house and I bought one but this was a kind of violence because I am a free soul. I like changing because this keeps you young".*

However, many participants complained of being homeowner mostly because this is becoming very expensive. There was a common feeling of nostalgia that induced many participants to state that the situation in Italy is changing and is getting worse. Especially in the last ten years, they declared, the price of their houses decreased considerably and it is becoming almost impossible to manage a second property. Furthermore, the relationship with their own children is changing and parents become more and more important in helping them economically.

"*When I bought my house I did not make a big sacrifice but now owning a house generates high costs that you would not have to pay living in a rented house. My husband and my daughter own other properties by inheritance and they were thinking about using these properties to complement the public pension, but in the last years they are changing their mind because the price is going down and at the same time these properties are expensive*"

"*Italy is changing. It is no more possible to afford the costs of owning a second house. Pensions are inadequate and owning a house is becoming a burden. Nowadays there is a trade-off between feelings and the daily needs*"

"*There has been a change in mentality. We represent the reference point for our children and not our children for us. We need to help our children and to be independent at the same time*".

2.10.4.2 Pensions and retirement income.

Table 2 shows the sources of retirement income of the participants.[6] The first column lists the possible sources of retirement income. The second column reports the number of participants for which the corresponding item in column 1 represents a source

6 Please, note that two participants did not fill in the card because they temporarily left the room.

of retirement income. Column three to seven indicate the relative importance of each source in determining the overall retirement income: rank 1 refers to the most important source, rank 5 to the least important source (for instance, 11 participants put state pension at rank 1, 1 participant put it at rank 2 and so on).

As expected for almost all participants state pension represents a source of retirement income and it is the main source. Only for 1 participant it arises to be the less important. Housing represents a source of retirement income for 10 participants and, after state pension, it appears to be the main source of retirement income. It is important, however, to notice here that the participants interpreted housing as form of in-kind transfers and imputed rents and not in the form of liquidating housing assets. Private pension insurance and other properties also contribute to retirement income for about the 33% of participants and for them these are quite important sources. Occupational pensions and family seem to be less important, the former represents a source of retirement income for 2 participants, the latter for 1 participant. None of the participants, instead, receives social benefits and other forms of retirement income. These data suggests that state pension is important and the most significant source of income for many people. Surprisingly, also private pension insurance plays an important role in determining the overall level of retirement income as well as the rental income from other properties. Nevertheless, liquidating housing assets does not appear as a source of retirement income for this group of individuals.

Table 2: Source of Retirement Income

Source of Retirement Income	Count of Participants	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
State Pension	13	11	1	0	1	0
Occupational Pension	2	0	0	0	1	1
Private Pension Insurance	5	1	3	1	0	0
Housing (the house you live in)	10	1	8	1	0	0
Family	1	1	0	0	0	0
Other Properties (rental income)	4	3	1	0	0	0
Social Benefits	0	0	0	0	0	0
Other	0	0	0	0	0	0

In terms of your retirement income, how does it compare to your income before retirement? Is it the same level or was there a big drop?

According to all participants the income they are enjoying during retirement is lower than the one they enjoyed during their working life and it is often inadequate to satisfy the actual needs. Therefore, it is difficult for them to keep the same standard of living as before, also in the case in which their children is living elsewhere, because they still need to help them economically. Participants seem to be especially worried of incurring in some sickness or of not being autonomous as they are afraid of not being to cover the expenses related to these problems.

"*Today we are afraid of getting older. We are afraid of not being able to face problems related to pensions and old age. Interventions that will alleviate this stress are welcome*".

"*My father is very old, he has a pension but it is not very high, and the elderly care center are very expensive, above 2,000 euro per month. Who can pay that money? Our pensions are not enough to cover this cost*".

2.10.4.3 The role of housing equity

Table 3 reports the opinion of the participants with respect to the role of housing equity to finance needs in the old age in the hypothetical situation descried in the vignette. The first column reports the five possible options of using the house as a form of financing. Column two to column six indicate the relative preference of participants with respect to each option: rank 1 refers to the most recommended option, rank 5 to the least recommended source (for instance, 2 participants put "sell the house and move to a rental dwelling" rank 1, 0 participants put it at rank 2, 2 at rank 3 and so on).

From the table it arises clearly that the option "Stay in the house and use a financial product to extract the housing equity" is the most recommended one, 7 out of 13 respondents ranked this option as the most recommended and only 3 ranked it as the least recommended. The rest of the respondents (7) had an opinion that lies between these extremes. Hence, it seems that these participants would most likely consider the possibility of using ERS to supplement their pensions mostly because they are very attached to their house and would not like to leave it or change it.

"*For me moving to a different place would mean shortening my life*".

"*It would be traumatic (upsetting) for me to move to a different place from the houses I have lived for many years*".

"*I think it is important to live in the same house also from a practical point of you because you get used to that space and you know how to move around in that place. This is very important especially for those elderly that are not autonomous, living in the same house means that they would have some reference points to move around*".

Those people who, instead, think that "Stay in the house and use a financial product to extract the housing equity" is not a good option (3 participants gave rank 4 and other 3 gave rank 5) emphasized that their answer was due to the fact that such products are very expensive compared to the annuity that you would get, which is not very high.

"*The PVI (prestito vitalizio ipotecario) is too expensive and the bank do not grant you a high sum, furthermore the younger you are the lower is the transfer that you receive from the bank. I do not think this is very convenient for us. "*

The least recommended options are "Sell the house and move to a rental dwelling" (8 respondents ranked it as the worst option) and "Let out part of the dwelling" (8 respondents ranked it as the worst option).

Table 3: Options and their Rank

Options	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling	2	0	2	2	8
Sell the house and move to a smaller home ownership dwelling	2	2	1	3	6

Sell the house and rent it back (sale- and lease-back)	1	2	5	2	4
Stay in the house and use a financial product to extract the housing equity	7	2	2	3	3
Let out part of the dwelling	1	2	2	2	7

The results changed quite a bit when alternative scenarios were proposed. In particular, in the first alternative scenario "The dwelling of the couple would be old and in urgent need of maintenance", the most recommended option was to sell the dwelling and either to move to a rental dwelling or to move to a smaller home ownership dwelling. In the second alternative scenario "The couple would have two adult children, one of them being unemployed" many participants would have recommended to "let out part of the dwelling" in particular to create a commercial activity such as a bed and breakfast under the management of the child so that he can get a job. In addition, it is also quite recommended to sell the house and move in a smaller rental dwelling. Last, all participants agreed that it would not be reasonable to sell the house "to buy a camper", they would rather give up to their desire to buy a camper or they would use the PVI.

To sum up, as the scenario changes the preferences for the different options change. In particular, the factor that seems to affect the final decision are the house conditions, having or not children, heath status of the couple, the working situation of the children. It also came out that another factor that would affect this decision for the participants is the relationship with their children, that is, whether they are in good or bad relationship.

2.10.4.4 Housing market situation in Parma

The discussion then shifted to the current housing market situation in Parma.

Most of participants declare that there is a sufficient supply of rental dwelling but that the match between supply and demand is difficult. However, some of them specify that the supply is sufficient only for more expensive houses, in particular for those whose rent goes from 800,00 euro per month above. They also specify that smaller houses are proportionally more expensive than bigger one.

It is instead quite difficult to sell houses at a price that reflect their value. In order to be able to sell them you have to accept some depreciation. However, it mostly depends on the kind of the houses. Very good houses can be sold quite easily while the market is saturated of mediocre houses.

2.10.4.5 The role of the family and the obligation to bequeath

There was a variety in the attitudes of participants with respect to the obligation to bequest. A couple of participants declared that they are against bequeath. The primary reason for this was that probably children are more in need of the financial resources of the parents when they are children more than when they grow up. For this reason, some of the participants declared that they prefer to invest their money on the education of children or other needs in their childhood more than leaving a bequest. Some other instead convincingly argued that they are in favor of bequeath because of moral reasons and that the State should help in this instead of imposing inheritance taxes. One person declared that he would like to bequeath but he does not perceive it as an obligation. Another participant admitted that it depends on the experiences that one has in his own life and that it is always a trade-off between the willingness to leave something to children, not only for moral but also for cultural reasons, and the difficulties encountered every day to keep a decent standard of living.

"*Leaving a bequest is leaving part of myself to my children, it is a way of keeping living after death*".

"*Bequeath is an old concept, our children have to manage to get by without our help*"

"*Bequeath is part of your roots that you would like to transmit, you put together the history of your family*".

2.10.4.6 Experience with/knowledge of housing equity release products

None of the participants had experience with equity release products. However, the vast majority of them had knowledge of it mostly because they have some connections with the potential providers. In particular, one participant declared that he was personally involved in the elaboration of such products; some other knew them because they were former employee of a bank or are actually working for the bankers unions. Only few participants never heard about these products. From the conversation, it resulted that more information on these products are needed.

2.10.4.7 The relationship between housing equity and pension provision

Almost all the participants declared that this is an interesting topic and that they would be happy to know the details and to consider ERS product to supplement their pension, but they feel that more information are needed to understand them better. Currently, they think there is not much clarity and transparency on these products.

2 participants were strictly convinced that these can be successful tools to increase their retirement income without any doubt.

Many participant underlined that these tools could be beneficial in helping them to cover medical care expenses and to be autonomous without recurring to the public system or the help of parents or other relatives. 3 participants welcome these initiatives also because they think that owning a property is becoming very expensive in Italy and ERS products can have an instrumental aim of reducing such costs.

4 participants wanted to underline that there is a risk that these products would target only a small group of citizens (niche product). 1 participant stated that these products are more oriented toward metropolitan areas than to peripheral areas, mostly because of the mentality of people.

2.10.4.8 The providers of housing equity release products

Table 4 reports the results concerning the participants' trust on different ERS provides. The first column lists the possible providers. The second column lists the average grade given by participants for each possible provider. The participants had to choose a grade from 1 to 10, where 1 refers to minimum trust and 10 refers to maximum trust.

The results in the table indicate that insurance companies would be the most trustful provider for these participants. They are followed by banks and government, while less attractive providers are Occupational pension funds and commercial companies. Overall, however, the degree of trust is quite low, insurance companies score only 4.6, while banks and government score 4.4.

Table 4: List of Equity Release Products Providers

Provider	Average Grade given by participants
Banks	4,4
Commercial Companies	2,3
Insurance Companies	4,7
Occupational Pension Funds	3,9
Government	4,4

2.10.5 **Conclusions**

Overall, the focus group run very smoothly. All participants were very interested and involved in the discussion. We had relevant and in some cases surprising feedback.

All participants are homeowners, they bought a house when they were young for cultural and economic reasons, but nowadays they are changing their mind mostly because they think owning a property is becoming more and more expensive. Nevertheless, they are much attached to their place not only for emotional reasons, but mostly for practical reasons as elderly could be more autonomous in places that they know and are used to.

Overall they appeared to be welcoming with respects to ERS products although they do not strongly trusts providers and institutions and think that more information are needed to evaluate them appropriately. The main reasons why they would use such schemes is to cover health care expenses. Concerning bequeath, some participants are convinced that they would not like to leave a bequest to their children or relatives and that the idea of bequeath as an obligation must be overcome. Interestingly, they want to understand whether providers will have social or lucrative purposes in offering these products. Furthermore, they think that such products might only target small specific group of the populations. Last, the general impression was that such products could take between 20 or 30 years to become successful.

2.11 Italy: Focus Group 2 (Roma)

2.11.1 **Introduction**

This is the second focus group that together with the first one, run about one month before, and a third one, which will be run later on, represent one of the main steps of the project. This focus group, as the others, is intended to understand whether new supplementary pension products that are mainly based on house equity can be successful in the Italian context. The focus group allows to analyze more deeply the potential demand and to grasp the feelings and attitudes of individuals with respect to such products. This focus group took place in Rome on the 6th of October 2016. The details are reported in the following sections.

2.11.2 **Methodology**

The second focus group was run in Rome, the capital city that is located in the Region Lazio in the Center of Italy. The participants were contacted through Adiconsum located in Rome. Adiconsum is one of the main Italian consumer associations. Some of the participants had already interacted with this association before the focus group or had already took part to other kinds of focus groups. The meeting lasted three hours and was conducted by one moderator with the help of an assistant. The moderator started explaining the main aim of the project and its structure. In the meanwhile, the assistant distributed a folder to each participant containing the cards, a pen, some white sheets to take note, and a gift card of 15 euros to be spent in a bookstore. The moderator then moved to the description of the structure and aims of the focus group. For each subtopic the moderator made an introduction and asked the participants to express their opinions. The template provided by TU Delft was followed throughout the session. In sum, the methodology adopted is the same as the one adopted in Parma for the first focus group, with the difference that during the second focus group the coffee break took place as scheduled by the TU Delft template.

2.11.3 **Data**

9 people attended the focus group: 2 men and 7 women. The participants' details are listed in Table 1. Participants' age varies between 57 and 77 and they are all residents of Rome. 2 out of the 9 individuals are still working while the rest are retired. They are all homeowners: two of them have outstanding mortgage, the others paid back the debt. All of them live in apartments. The sample does not show much variability in terms of household income. 8 individuals stated their income is about average and 1 that it is below average. There is some variety, instead, in terms of household composition. 5 interviewed live alone, 2 live in a couple with at least one child living with them, 2 live in a single-parent household.

Only 2 people had some knowledge, although very precarious, about equity release products. The participants joined the focus group for a variety of reasons. Some of them joined because they are single and they do not know what to do about their properties after death. Some others stated to be interested in the topic of the focus group because they are very concerned with respect to the economic future of their children. A couple of participants explained that they took part to the meeting just for curiosity. Only 2 of them explained that they joined the group because they are really thinking about using these products since either they do not have children or they think they deserve to enjoy a more decent life during retirement. Last, one participant declared that he/she took part because he/she is single and his/her friend, single as well and without children, got engaged in a similar pension product, but the experience turned out to be negative as the benefits received were very limited not enough to satisfy some basic needs.

Table 1: Characteristics of the Group

Age	Homeowners	Type of Dwelling	Household Type	Outstanding mortgage	Retired/ Working	Household Income
77	Yes	Apartment	One person	n.d.	Retired	About average
73	Yes	Apartment	One person	0	Retired	About average
64	Yes	Apartment	Couple with at least one child living with them	0	Working	About average
59	Yes	Apartment	One person	0	Retired	Below average
68	Yes	Apartment	One person	0	Retired	About average
57	Yes	Apartment	Single with one child living with him/her	0	Working	About average
65	Yes	Apartment	Couple with at least one child living with them	0	Retired	About average
64	Yes	Apartment	Single with one child living with him/her	330,000 euro	Retired	About average
65	Yes	Apartment	One person	6,000 euro	Retired	About average

2.11.4 **Findings**

2.11.4.1 Current housing situation and meaning of home-ownership.

What were the reasons for *buying* a house/flat instead of renting it? How did you finance the purchase/building costs of your flat/ house? Do you own any other properties? If yes, what are the reasons for this?

All participants are homeowners. Half of them explained that they decided to buy a house instead of renting it because they had always been attracted by real estate investments. For 3 of them, instead, the highest costs of renting were the main motivation to let them buying a house. One participant stated that buying a house represented a tool to reduce economic insecurity. A last participant declared that there were mainly cultural reasons behind the decision to buy a house. All of them used a mortgage and some cash to buy the house. Two of them used promissory notes in addition to the mortgage. Two participants have not yet paid back the mortgage.

Two participants have other properties. One person bought another house as a form of investment. The other bought a second house outside the city to spend the retirement there and a farming land.

"*I have a mania for real estate. I bought my first house when I was 24 and it was a studio apartment. Every 10 or 15 years I sell the property that I have and I buy something bigger. I am really into real estate*".

"*Buying the house where to live is typical of the Italian mentality: here investing means buying a house*".

"*Having a house is a form of security".*

However, there were some contrasting feelings among the participants. Some of them declared that owning a house is still a priority for several reasons, such as helping their children or having decent standards of living during retirement. Some others, instead, declared that there are negative aspects related to being homeowner, which are mainly related to its costs and the stagnant real estate market, and that these negative aspects are higher than the benefits. One participant stated that although he/she has been attracted for long by real estate, he/she is changing her/his mind as having a decent standard of living is becoming more important than owning a property. Another participant declared that he/she would not enjoy having two properties but would rather sell everything to go living abroad. It also arose a feeling of change in the relationship with their own children as parents are becoming more and more important in helping them economically, especially to get a mortgage, as a consistent deposit is required.

"*I would never fancy having two properties. They are too much expensive and impossible to sell. If I had no children I would sell everything to go living abroad*".

"*Nowadays everything is changing. It is true that it is better paying a mortgage instead of a rent but today it is difficult to get a mortgage. You need a consistent deposit that young people do not have because their wages are too low. So parent's house represents an investment for the children too*".

"*It is not worthy owning a second house because of the taxes and expenditures*".

"If you do not own a house you cannot afford living even if you earn a satisfactory level of income".

2.11.4.2 Pensions and retirement income.

Table 2 shows the sources of retirement income of the participants. The first column lists the possible sources of retirement income. The second column reports the number of participants for which the corresponding item in column 1 represents a source of retirement income. Column three to seven indicate the relative importance of each source in determining the overall retirement income: rank 1 refers to the most important source, rank 5 to the least important source (for instance, 11 participants put state pension at rank 1, 1 participant put it at rank 2 and so on).

As expected for almost all participants state pension represents a source of retirement income and it is the main source. Only for 1 participant it arises to be the least important. Housing represents a source of retirement income for 6 participants and, after state pension, it appears to be the main source of retirement income. It is important, however, to notice here that the participants interpreted housing as form of in-kind transfers and imputed rents and not in the form of liquidating housing assets. Nevertheless, one participants declared that owning a house cannot be considered as a form of income because it is the result of the sacrifices that have been made during life. Moreover, although owing a house allows to not paying a rent, high interests must be paid to the banks. Family also contribute considerably to retirement income for about

the 40% of participants, although only for one of them this represents a relevant source. Interestingly, for one participant the main source of retirement income is the one obtained by owning other properties. Whereas, for none of them private pension insurances and occupational pensions represent a source of retirement income. Last, social benefits represents a source of retirement income, although not the main, for one participant. These data suggest that state pension is important and the most significant source of income for many people, while complementary pensions do not play any role in determining the overall level of retirement income.

Table 2: Source of Retirement Income

Source of Retirement Income	Count of Participants	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
State Pension	8	7	1	0	0	0
Occupational Pension	0	0	0	0	1	1
Private Pension Insurance	0	0	0	0	0	0
Housing (the house you live in)	6	0	5	1	0	0
Family	4	1	0	2	2	0
Other Properties (rental income)	1	1	0	0	0	0
Social Benefits	1	0	0	1	0	0
Other	1	0	1	0	0	0

In terms of your retirement income, how does it compare to your income before retirement? Is it the same level or was there a big drop?

The results of the comparison between retirement income and income before retirement vary among the participants. Some of them declare that their retirement income is very close to the income enjoyed during their working life and for this reasons they are able to keep the same standard of living. Other participants, instead, declare that they had to adapt to a lower standards of living because of a low retirement income and because of increasing living costs.

All participants, however, agree that the new generations will face a worsen situation and they cannot count of the public pension.

"*Nowadays we are benefiting from a public pensions but this will last for at most five years, after that it will be mollified for those who will retire. There are many young adult, aged about 35, that have no contributions*".

"*Young people will be lucky only if they will be able to buy a house*".

"*I could retire very young because I had many years of contribution. My public pension is not very high but it is similar to the income earned before retirement. So, I did not experience a big change in my standard of living. Only now I am starting to perceive a difference because living is becoming more expensive. I think that an additional source of retirement income would be beneficial*".

"I retired twenty years ago therefore my pension is low. I will be a cost for the State if I live for other twenty years. My pensions does not allow me to live as I would like. Luckily I have a house and I am planning to transform my ownership into a naked property so that I can be able to afford unexpected expenditures, such as those related to medical cares".

2.11.4.3 The role of housing equity

Table 3 reports the opinion of the participants with respect to the role of housing equity to finance needs in the old age in the hypothetical situation descried in the vignette. The first column reports the five possible options of using the house as a form of financing. Column two to column six indicate the relative preference of participants with respect to each option: rank 1 refers to the most recommended option, rank 5 to the least recommended source (for instance, 2 participants put "sell the house and move to a rental dwelling" rank 1, 0 participants put it at rank 2, 2 at rank 3 and so on).

From the table it arises clearly that the option "Sell the house and move to a small home ownership dwelling" is the most recommended one, 6 out of 9 respondents ranked this option as the most recommended, 2 as the second best option and only 1 ranked it as the least recommended. For the participants moving to a new dwelling does not represent an impediment. Only 2 respondents would recommend to use a financial product to extract the housing equity, although other 2 respondents gave the worst rank to this option. The other options ranked it in the middle. Hence, it seems that these participants would hardly consider the possibility of using ERP to supplement their pensions, although they would not exclude it a priori.

"For me it is not necessary to stay in the same house, so it is not a problem if I have to move".

"It is not easy to move, some sacrifice must be done".

This kind of aversion with respect to ERP is mainly due to a feeling of discontent with the general economic and political situation.

"The PVI (prestito vitalizio ipotecario) is a good idea but there is no future for it at least with these politicians".

"Ideally, this could be a good solution, but I am perplexed because there is no trust in banks".

The least recommended options are "Sell the house and move to a rental dwelling" and "Sell the house and rent it back". Both of them were considered as the worst options by 6 respondents.

Table 3: Options and their Rank

Options	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling	0	0	2	1	6
Sell the house and move to a smaller home ownership dwelling	6	2	0	0	1
Sell the house and rent it back (sale- and lease-back)	0	0	0	3	6
Stay in the house and use a financial product to extract the housing equity	2	3	1	1	2

Let out part of the dwelling	1	3	3	1	1

The results slightly changed when alternative scenarios were proposed. Only 2 participants declared that, in the first alternative scenario "The dwelling of the couple would be old and in urgent need of maintenance", before selling they would first proceed with some renovation works, otherwise it would be very difficult to sell a house in those conditions. Furthermore, this would also allow them to obtain some fiscal benefits. In the second alternative scenario "The couple would have two adult children, one of them being unemployed" all participants confirmed what recommended in the main scenario. Hence, they would try to sell as much as possible. Last, all participants agreed that they would recommend to sell the house and move to a rental dwelling in the third alternative scenario "The couple needs money to go in vacation".

To sum up, as the scenario changes the preferences for the different options do not change dramatically. In particular, the factors that seem to affect the final decision are the house conditions and the need to afford some cost related to an activity that produces pleasure, such as vacations.

2.11.4.4 Housing market situation in Rome

The discussion then shifted to the current housing market situation in Rome.

Most of participants declared that there is a sufficient supply of rental dwellings but that the match between supply and demand is difficult. It seems that smaller hoses are in proportion more expensive than bigger houses. However, some of them specified that it really depends on the areas of the city.

All participants agreed that it is, instead, quite difficult to sell houses mostly because it is becoming more and more difficult to get access to mortgage. However, again it depends on the areas of the city as houses in the nicest areas are sold quite easily. Some participants also argued that they would not sell their house in this period as they could lose up to 70,000 euros given that the housing price is going down. The only reason they would sell would be to buy a new house. Furthermore, they made the point that it is now difficult to sell to single private individuals. In several cases, entire buildings have been sold and transformed in b&b, others in group homes.

The role of the family and the obligation to bequeath

The participants agreed in admitting that the role of family is strongly eradicated. In addition, they showed a similar attitude with respect to the obligation to bequest. A large majority declared to be in favor of bequeath because of moral reasons. Also, participants that are single and without children would like to leave a bequest to their nephews. One person declared that he/she would like to bequeath but he/she does not perceive it as an obligation. Another participant admitted that it depends on the experiences that one has in his own life and that it is always a trade-off between the willingness to leave something to children and the difficulties encountered every day to keep a decent standard of living.

"*I do not have children but I have nephews. Because of the mentality and the values that my parent transmitted to me, I would like to leave them something also because they are living in a difficult historical period. But this bequest is constrained to the needs that I will face*".

"I would like to b*equeath, so I would consider ERP only if they give my heirs the possibility to ransom the dwelling and to do it at a favorable price".*

"I am single and without children. I was planning to leave my house to a needy non-Italian child that I have been taking care of since long. But now my life is changing, my

health expenses are increasing, therefore I do not know if I will be able to commit to my initial plans and I am feeling upset about this".

Experience with/knowledge of housing equity release products

None of the participants had experience with equity release products. The vast majority of them did not have knowledge of it. Only two participants declared to know these products: one participant had knowledge through a friend's experience, the other because he/she was former employee of a bank. From the conversation, it resulted that more information on these products are needed in order to be able to consider ERP as an option to increase retirement income.

The relationship between housing equity and pension provision

Many participants declared that this is ideally and interesting topic but they would be skeptical in considering ERS product to supplement their pension for different reasons. Firstly, as they pointed out they have no trust in banks. Second, they find the existing information lacking and unclear, hence they feel they are not able to have a proper opinion on the possibility of using ERP as a form of supplementary pension. In addition, they expect that the introduction of such products will take a long time before it can properly work. Only few participants seemed to be more open to these products. Last, some other participants think it is very similar to the necked property. Indeed, they prefer the latter to ERP as they consider it to be less expensive.

"I am in favor of these products. There are many single people that can use these products instead of living everything to the Church".

"I thinks the introduction of these products is not feasible because in the last years banks have been reluctant with respect to real estate".

"*ERP can be convenient but making a decision about using such products as a form of pension requires caution because banks are involved*".

"*I would never give my house to the bank; their behaviour with clients is similar to usury. Furthermore, I don't think that banks are interested in acquiring new properties; they own a huge amount of houses and there are many auctions going on*".

2.11.4.5 The providers of housing equity release products

Table 4 reports the results concerning the participants' trust on different ERS provides. The first column lists the possible providers. The second column lists the average grade given by participants for each possible provider. The participants had to choose a grade from 1 to 10, where 1 refers to minimum trust and 10 refers to maximum trust.

The results in the table indicate that Government would be the most trustful provider for these participants. Government would be the most trustful only comparatively, in fact, its average grade remains very low (5.4). It is followed by insurance companies. While banks, commercial companies, and occupational pension funds arise to not be attractive at all.

These results and the conversation that followed witness a feeling of discontent and distrust with respect to bank in particular and, more in general, with respect to the economic system.

"This is a good idea but there is no trust in banks for this reason I feel puzzled".

"I would never trust in banks. If I will experience financial problems I'd rather sell my house and move to a smaller one".

"I don't think that these products will be a solution. There is a lack of trust in banks. If I will ever need more resources I will sell my house to buy a smaller one and I will manage by myself the liquidity".

Table 4: List of Equity Release Products Providers

Provider	Average Grade given by participants
Banks	1,9
Commercial Companies	1,6
Insurance Companies	2,1
Occupational Pension Funds	1,9
Government	5,4

2.11.4.6 Other comments

At the end of the focus group, many participants pointed out that it would be useful to know the experience of people that made use of ERP. Nevertheless, the majority of them think ERS will hardly develop in this country. By contrast, they think it would be more beneficial to further develop the necked property and regulate it as a form of supplementary pension since the necked property has no costs and it does not involve the intermediation of the bank.

2.11.5 Conclusions

Overall, this second focus group, as the first, run very smoothly. All participants were very interested and involved in the discussion. However, the feedbacks were quite different from those obtained during the first focus group in Parma.

All participants are homeowners, they bought a house when they were young for cultural and economic reasons, but nowadays they are changing their mind mostly because they think owning a property is becoming more and more expensive. Nevertheless, they would move without big problems to a smaller place in order to solve eventual financial problems.

Overall they appeared to be very skeptical with respects to ERS products because they do not trust banks and institutions and think that more information are needed to evaluate them appropriately. They would rather opt for the necked property. Concerning bequeath, all participants would like to leave a bequest not only to their children but also to their relatives. Some of them think that this will depend on their ability to cover medical care expenses. Furthermore, they think that such products will barely develop as the new generations will be unable to become homeowner as much as the previous generations. Last, the general impression was that such products could take a long time to become successful.

2.12 Italy: Focus Group 3 (Parma)

2.12.1 **Introduction**

This is the third and last focus group of the project. This focus group aims were twofold. First of all, we wanted to present the results of our research and to gather participants' reactions to the proposal of new financial instruments. Second of all, we wanted to understand better with the participants the issues with trust regarding the financial system and the availability of information. The focus group allows to analyse more deeply the potential demand of the new products, on the one hand, and to grasp the feelings and attitudes of individuals with respect to such products on the others. This focus group took place in Parma on the 9th of October 2017. The details are reported in the following sections.

2.12.2 **Methodology**

For the third focus group we went back to Parma, where the first focus group was held. The participants were contacted through Confconsumatori located in Parma. Confconsumatori is one of the main Italian consumer associations. All the participants had already interacted with this association before the focus group for different reasons. The meeting lasted two and a half hours and was conducted by one moderator with the help of an assistant. As in the previous focus group the coffee break was shifted at the end of the meeting. The moderator started explaining the main results of the project. In the meanwhile, the assistant distributed a folder to each participant containing the cards, a pen and a gift card of 20 euros to be spent in a bookstore. The moderator then moved to the description of the first cards and of the new instruments. For each subtopic the moderator made an introduction and asked the participants to express their opinions. The template provided by TU Delft was followed throughout the session.

2.12.3 **Data**

12 people attended the focus group: 9 men and 3 women. Among them, 6 people out of 12 attended the first focus group, the rest was represented by new coming. Among the participants, there was the president of Confconsumatori. The participants' details are listed in Table 1. Participants' age varies between 56 and 81 and they are all residents of Parma. 4 out of the 12 individuals have retired while the rest are still working. They are all homeowners: two of them have outstanding mortgage, the others paid back the debt. Most of them (7) live in apartments, 3 participants live in a detached dwellings and 1 in a terraced dwelling. The sample does not show much variability in terms of household income. 10 individuals state their income is about average and 1 that it is above average. There was some variety instead in terms of household composition. 8 interviewed live in a couple with all children living elsewhere, 1 person lives alone, 1 others live in a couple with two children, 1 of them with a sister, 1 person lives in a couple without children, and another one lives with a son and a grandchild.

Table 1: Characteristics of the Group

Age	Homeowners	Type of Dwelling	Household Type	Outstanding mortgage	Retired / Working	Household Income	Profession
81	Yes	Apartment	One person	n.d.	retired	About average	Clothes
66	Yes	Apartment	Couple with children that all live elsewhere	0	working	About average	Director public sector
80	Yes	Detached	Couple with children that all live elsewhere	0	Retired	About average	Orthodontics
62	Yes	Apartment	Couple with two child living with them	120,000 euro	working	About average	Clerical
68	Yes	Apartment	Couple with children that all live elsewhere	0	Working	About average	Clerical
69	Yes	Detached	Couple with children that all live elsewhere	0	Working	About average	Employee in bank
74	Yes	Apartment	Couple with children that all live elsewhere	0	Working	Above average (higher income)	Engineer
77	Yes	Apartment	Couple with children that all live elsewhere	0	Retired	About average	Clerical
56	Yes	Apartment	Couple with children that all live elsewhere	60,000 euro	Working	About average	n.d.
67	Yes	Terraced dwelling	Three persons (participant+son+nephew)	0	Retired	About average	Employee in a bank
65	Yes	Detached	Couple with children that all live elsewhere	0	Working	About average	Bank official
67	Yes	Apartment	Two persons (sisters)	0	Retired	About average	Employee in public department

As in the first focus group, most of the participants were interested in this topic firstly because they are worried either about their future care and about their children and the difficulties they will experience in getting a pension. Secondly, they were curious or wanted to know more about the results of the research and the presentation of the new products. Participants that already have participated to the first focus group were more interested in the new products; new participants that did not have any knowledge wanted to know them.

2.12.4 Findings

2.12.4.1 Preferences towards ERS models and their use

Giving the fact that in Italy the only ERS type is the Loan Model, the participants' preferences over it were wide spread. For what concern the use of ERS products, as the following Table 2 shows, there was agreement on the: most of the participants, regardless their preference over ERS products, declared that those instruments would be beneficial for medical expenses and family helping.

Yet, for what concern participants' preferences over their own actions (i.e. are you seriously thinking about to buy an ERS product?), the situation was far from agreement. We might divide the participants in two groups. In the first group there were the "skeptical" participants; those for whom the house represents a tangible achievement of their career and a strong commitment to their offspring. Owning a house matters for those participant because it highlights a specific cultural trait. For those people, the ERS model would work only if the buyer would be a single or widow without children. The second group, instead, was represented by the "interested" participant. Those participants were very interested in the results of the research and very keen on knowing the product proposal because it represented a possible tool to solve two problems: their future care and their children future. In a country, like Italy, where the cost for elderly care can be very high, more and more people appeal to the home care support by a member of a family. Yet, those participants were very reluctant in taking in consideration the home care support on behalf of their children, because of the high unemployment rate and the high risks associated with the Italian labour market. Hence they were looking at the ERS as an instrument to grant them the economic resources needed for their care. For what concern their attachment to their house, they were very practical. They recognized that the prevailing cultural aspect was very hard to let go, but they also pointed out the fact that the younger generation might be more in need of financial and economic support, for example "support to start a business" like one participant suggested, than having a house without having any income to support it.

Table 2: Opinions for utilising ERS product

Options for utilising home equity	**Rank1***	**Rank2**	**Rank3**	**Rank4**	**Rank5**
Day to day expenditure such as grocery, utility bills	2**	3	**4**	0	3
Medical expenses	3	**7**	2	0	0
Help family members	4	2	**5**	1	0
Payment/Buying a Loan for a second home	1	0	3	3	**5**

Any other purpose (Leisure, holidays, vacation, camper)	0	0	0	4	**8**

* Rank 1= highest proportion, Rank 5= lowest proportion

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 2 is the number of participants giving a priority rank of 1 to the option "Day to day…".

2.12.4.2 What should a good ERS-product look like?

Table 3 shows the participants' opinion on the standards of a hypothetical ERS product. Participants preferences were very similar: the most important characteristics were the fixed interest rate, the right to tenure, the information of the products and of the cost, the flexibility of the instruments and the tax implications. According to the president of Confconsumatori reported us a study on the demand-side of the ERS product that the association brought about. According to the study, the demand of the ERS product is slightly increasing, but a lot of concerns are still present, especially those related either to trust with respect to the banking system and to some characteristics of the instruments themselves. For what concern the the characteristics of a good ERS the participants raised important questions about two issues. The first concern was related to the level of interest rate: the participants feared that the contingency of high interest rates would be a certainty giving the fact that the real estate market is highly illiquid, and hence highly problematic for the banks. And if it would be the case, even less people would take into consideration the possibility to buy any ERS product. The second concern was associated with the assessment of the value of the house and its variability with respect to the regional or provincial residency. The variability could be the umpteenth barrier to the uptake of any ERS product. A final remark was aimed to point out whether product such as ERS would have been better expressed in terms of "welfare product" rather than a financial product. The audience torn in two halves regarding this matter.

Table 3: Characteristics of a good ERS

Standards	Rank 1*	Rank 2	Rank 3	Rank 4
a) Fixed interest rate	**6****	6	0	0
b) Variable but capped rate of interest	3	3	4	**6**
c) Right to tenure	**10**	2	0	0
d) No negative equity guarantee	**6**	3	0	3
e) To be able to choose your own solicitor	3	**7**	0	2
f) Fair and simple illustration of your plan	**8**	4	0	0
g) Information of all costs involved and who will bear them	**12**	0	0	0
h) Tax implications	**7**	3	2	0
i) Early repayment options	2	3	**5**	2
j) Flexibility to move homes	**5**	3	3	1

*Rank1= extremely important, Rank 4=Non important at all

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 6 is the number of participants giving a priority rank of 1 to the option "Fixed interest rate".

2.12.4.3 The role of trust and awareness

None of the participants had personal experience with equity release products. However, the vast majority of them had knowledge of it mostly because they have some connections with the potential providers. In particular, one participant declared that he was personally involved in the elaboration of such products; some other knew them because they were former employee of a bank or are actually working for the banking unions. Only few participants never heard about these products. From the conversation, it resulted that more information on these products are needed and that financial literacy needs to be improved not only for elderly people but also for the young generations. The financial literacy request resulted to be a very stringent necessity, especially among young people and young adults. For what concern the issues with knowledge and awareness we asked the participants to provide us a rank of the information source that they see more reliable in advertising ERS product.

As the Table 3 shows, we have participants who are very prone to use internet and social media for information spreading purposes. In fact, living aside the two most traditional sources, like media/tv/newspaper and financial advisor, we registered even higher preference frequencies for thematic web-site and social media.

Table 3: Awareness

Options	**Rank 1***	**Rank 2**	**Rank 3**	**Rank 4**
Media, TV, newspapers	**5****	**5**	1	1
Flyers	2	3	3	**4**
Theme web-site	**7**	1	3	1
Facebook, Twitter and other social media	1	**6**	1	4
Face to face with a financial intermediary	**6**	4	2	0

*Rank1= extremely important, Rank 4=Non important at all

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 5 is the number of participants giving a priority rank of 1 to the option "Media, TV, newspaper".

For what concern the trust issue, Table 4 shows us that knowledge and awareness is necessary to trust building, and also that the presence of the State would enhance trust more than market forces.

Table 4: Trust

Options	**Rank 1***	**Rank 2**	**Rank 3**	**Rank 4**
Would awareness enhance trust?	**7****	4	1	0
Do you see any point in involving the State to build trust and establish the reliability of equity release product?	**8**	3	0	1
Or is it better to leave this to the market itself?	0	3	2	**7**

*Rank1= extremely important, Rank 4=Non important at all

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 7 is the number of participants giving a priority rank of 1 to the option "Would awareness…".

To the open question "Why do you think it is important/not important to raise awareness about the possibilities of releasing housing equity with the help of ERS?" the applicants provide us with several interesting motivations. Some of the most interesting answers are highlighted in what follows.

"Knowing and be aware of the products help us to avoid the risk of unintended disappointments" especially those coming from the financial reckless management system.

"Awareness and knowledge about the product help us to feel more sure about the choice to take" and more autonomous with respect to their financial advisors.

"Awareness is a precondition to trust, without knowledge there is no trust" especially financial knowledge is required nowadays to be held by anyone, because all the financial decisions need to be taken consciously in order to prevent financial disappointment.

"Knowing means Understanding, that in turn means acting upon the real problems and necessity". The meaning of the statements is the following: sometimes participants have their financial advisors proposing them several options for the solution of a problem; the knowledge of the tools is the only instrument the participant has to understand if those tools represent a real solution for their problem and not another advisors' attempt to sell the product. Basically, for most of the participant knowledge is the only insurance they have to avoid that the bank would deceive them. Again, the trustworthiness of the financial sector is still in question.

"Make citizens aware of the existence of tools is a service to them, because it helps them to fight their fear about the management of their future livelihood ". A recurrent theme of the discussion was the chronic concern for their health care and the support of their children and grandchildren. The participants felt the compelling necessity of being prepared to the future and to plan ahead it in the most suitable way. And the most important part of the planning ahead was, for them, the enlargement of their knowledge and financial literacy.

2.12.4.4 Alternative ERS-solutions

The final part of the focus group was designed to report participants' suggestions and preference about the proposal ERS tools. On this matter all the proposals failed to endearing the participants' attention. The participants were very critical and trenchant about the questions related to each proposal, as we can observe from the Table 5 until the Table 9. They insisted on the fact that all those proposals would not work for low income people, but rather only for middle or high middle class. They welcomed the idea of proposing ERS financial instruments for the younger generations, given their limited capability of embarking in buying a dwelling. However, they find some tools still peculiar for the Italian cultural scenario. They found the proposal of the instrument combined with a Government intermediation a more convincing tools among those for the people already retired and with a resolved loan. Among those participant the beliefs that the ERS tools since they are financial instrument for house management, cure and support to the young working initiative the presence of the state is more needed than the one of banks or any other financial intermediary. For the participant the domains of house, cure and working conditions should be responsibility of the State first and only.

Table 5: Lifetime Lease

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank1***	**Rank2**	**Rank3**	**Rank4**	**Rank5**
1	A lifetime lease would be attractive to young people on low incomes that can't manage (or don't want to manage) a mortgage	1**		2	**8**	1
2	A lifetime lease will mean rents lower than the market rate.	1	3	2	2	**4**
3	This product would be attractive to those on low incomes	1	1	1	4	**5**
4	The government would be keen to subsidize this type of arrangement.	2	1	1	**4**	4
5	It doesn't matter that the customer does not share in house price appreciation.	**5**	2	5		

*Rank 1= strongly disagree, Rank 5=strongly agree

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 1 is the number of participants giving a priority rank of 1 to the Question "A lifetime lease would be…".

Table 6: Integrating a traditional mortgage and lifetime mortgage into one product

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank1***	**Rank2**	**Rank3**	**Rank4**	**Rank5**
1	This product would be attractive to first-time buyers.		4**	1	**5**	2
2	Young people need help with home buying.		1		5	**6**
3	Young people need help with saving for their retirement		1		5	**6**
4	A commitment to using their home to support their retirement is too much for a young home buyer.	1	3	2	1	**5**
5	I think mortgages and retirement saving should be kept separate.		1	**5**	3	3

*Rank 1= strongly disagree, Rank 5=strongly agree

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 4 is the number of participants giving a priority rank of 2 to the Question "This product would…".

Table 7: Collective house purchase and later sold back to collective entity

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank1***	**Rank2**	**Rank 3**	**Rank4**	**Rank5**
1	This product would be attractive to those on low incomes	2**	2		2	**6**
2	I like the idea of owning a share of a real estate fund instead of a house.	**3**	**3**	**3**	2	1
3	I think this would work financially.	2	1	2	**5**	2
4	As this approach relies on social cooperation it is likely to be successful.	3		1	**8**	
5	This is a good way to save for retirement.	2	1	2	**6**	1

*Rank 1= strongly disagree, Rank 5=strongly agree

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 2 is the number of participants giving a priority rank of 1 to the Question "This product would be…".

Table 8: Mortgage payment for retirement income

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank1***	**Rank2**	**Rank3**	**Rank4**	**Rank5**
1	This product would be attractive to Middle-aged people on modest incomes..	2**	1		**8**	1
2	I like the flexibility of switching between housing and pensions.	1		3	**4**	**4**
3	Housing and pensions should be treated the same way tax wise.	3	2	1	1	**5**
4	People will pay high charges on small pension funds.	**4**	3	2	2	1
5	People would have other uses for their cash after repaying their mortgage other than pensions like this.	4		**5**	3	

*Rank 1= strongly disagree, Rank 5=strongly agree

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 2 is the number of participants giving a priority rank of 1 to the Question "This product would be…".

Table 9: Government agency as an intermediary

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank1***	**Rank2**	**Rank3**	**Rank4**	**Rank5**
1	Variable interest rates on equity release schemes would be OK	1**		2	**7**	2
2	My house value increases at the same rate as other houses in ….	2		**4**	**4**	2
3	I think there would be more money left as an inheritance with this product.	1	3	2	**6**	
4	I like that the government is involved in this product.	1	1	1	**6**	3
5	Providers won't lower their interest rates even with this product.	3		1	**6**	2

*Rank 1= strongly disagree, Rank 5=strongly agree

** Every cells report the frequency of how many participants have given a specific priority rank. For example, 1 is the number of participants giving a priority rank of 1 to the Question "Variable interest…".

2.12.5 Conclusions

Overall, the focus group run very smoothly. All participants were very interested and involved in the discussion. We had relevant and in some cases surprising feedback.

All participants are homeowners, they bought a house when they were young for cultural and economic reasons, but nowadays they are changing their mind mostly because they think owning a property is becoming more and more expensive. Nevertheless, they are much attached to their place not only for emotional reasons, but mostly for practical reasons as elderly could be more autonomous in places that they know and are used to.

Overall they appeared to be welcoming with respects to ERS products although a lot of work is still necessary to be done, notwithstanding their poor trust in providers and institutions. A great deal of attention was drawn on two matters: the sustainability of both elder care and young support, on one hand, and the knowledge-awareness

issue, on the other. Many of them related to the necessity of using the house to mobilize resource. Indeed, the main reasons why they would use such schemes is to cover health care expenses, to be more autonomous with respect to their family and/or to support their children' working initiatives. All of them thought that more information is needed to evaluate the ERS product appropriately. As in the first focus group, they want to understand whether providers will have social or lucrative purposes in offering these products. Furthermore, they think that such products might only target small specific group of the populations. Last but not least, another core theme, during the discussion, was the financial literacy of young and elderly people.

2.13 The Netherlands: Focus Group 1 (31 August 2016)

2.13.1 **Introduction**

We welcome you all and warmly express our gratitude for your participation in this focus group meeting. My name is Joris Hoekstra and these are my colleagues Marja Elsinga and Kees Dol. We all work at the Delft University of Technology. We are here today to talk about the topics of housing equity and retirement income. More in particular we will deal with the following questions:

- To what extent do people need a supplement to their income after retirement?
- Which strategies can be used to extract housing wealth from the home ownership dwelling? What are the pros and cons of these strategies?
- Is it possible to come to an financial product in which mortgages and retirement income are integrated?

This focus group discussion is a part of a bigger research project funded by the European Commission. Focus groups like this one will be carried out in the following six countries: Germany, United Kingdom, Ireland, Italy, Hungary and the Netherlands. In each of these countries, three focus group discussions are planned. Two of these three focus groups are meant to assess to what extent there is an interest among consumers in extracting housing wealth. The third focus group takes place later in the project and is meant to test the financial product that we aim to design. The participants for the focus groups were recruited through the online membership panel of the Dutch association of homeowners (*Vereniging Eigen Huis*). We are grateful to this organization for their help and we will share the results of our research with them.

Before we will start the real discussion and I will give you the chance to introduce yourself, I would like to share some practical information with you. As you might be aware, a group discussion is an informal discussion about your views, experiences, concerns, desires etc. with respect to the subject matter. Thus, you are the experts today. There are no right or wrong answers and I would like you to say what you honestly think. Furthermore, we would like to ask you to respect each other opinions and to let the other participants finish their sentence before you interrupt. The discussion will be very hard to follow for us if two or more persons speak at the same time.

My role is to moderate the discussion. I am not here to give you my own opinion or to provide advice on financial products. Your perceptions are what matter. However, it is also my task to keep an eye on the time. There are many different things that we would like to discuss with you so sometimes I may have to cut off a discussion because we have to move on to the next topic. Half way the discussion, we will have a short break so that you can get some fresh air, take a drink or go to the toilet. In order to be able to properly analyse the focus group results, the discussion will be recorded with the help of an electronic device. Based on the recordings, we will make a written transcript. A summary of this transcript will be sent to you in due course for your information and approval. Based on the transcripts we, as researchers, will write a research report. In this research report, all participants will remain anonymous. When the research project is finished, in the summer of 2017, we will also inform you about its overall results.

2.13.2 **Methodology**

We used the building of the Faculty of Architecture of Delft University of Technology for conducting the focus group session. The individuals who participated in the session were recruited through the membership panel of the Dutch association of home owners (*Vereniging Eigen Huis).* This online panel has more than 20,000 members who are regularly asked to participate in surveys of *Vereniging Eigen Huis* (VEH), or of organizations with which VEH co-operates. A total of 5.000 panel members was

approached with the question if they wanted to participate in a focus group discussion. Households who responded positively to this question were requested to fill in a short online questionnaire. In total 80 panel members filled in this questionnaire which corresponds with a response rate of 1,6%. This may seem rather low but it should be kept in mind that not all panel members belong to the target group of the research (all focus groups participants should be between 55 and 75 years) and that some panel members live quite far away from the venue where the focus group session took place. Of the 80 people who filled in the questionnaire, 18 were invited by telephone to participate in the focus group discussion. The invited people subsequently received an E-mail which confirmed their participation and provided some practical information about the venue. The selection of the 18 participants took place on the basis of three main criteria:

- The availability of people on the dates and times we had planned for the focus group: August 31 from 14.00 to 16.30 and September 7 from 19.00 to 21.30;
- The geographical location of the dwelling. We mainly selected households from the so-called Randstad area. This is the most urbanized and populated area of the Netherlands, located in the West of the country;
- The background characteristics of the participants. We have tried to realize some spread within each of the focus groups with regard to the following factors: age, dwelling type, value of the dwelling and gender. As far as gender is concerned, it should be noted that the number of female participants was rather low. This is due to the fact that of the 80 people that indicated that they wanted to participate, only 7 were female. Apparently, talking about housing finance, and maybe also deciding about it, is mainly a man's affair in the Netherlands.

We invited 9 people for the first focus group. On the day of the focus group, one of the invitees announced that he could not attend because of a medical appointment.

The meeting lasted for two hours and twenty minutes with a ten minute break in the middle. The meeting was moderated by Joris Hoekstra, with Marja Elsinga and Kees Dol as assistant-moderators. A Power point presentation was used to guide the focus group participants through the main topics of the interview guide. After the meeting, all participants received a gift card of 25 Euro as a reward for their participation and a compensation for the time and travel costs that they spent.

2.13.3 **Data**

Table 1 provides a description of the characteristics of the participants of the first focus group. The data for this table is derived from the online questionnaire that people who were interested in participating in the focus group had to fill in, as well as from the short questionnaire that the focus groups participants were requested to fill in after the focus group had ended. As table 1 shows, there were 6 male and 2 female participants and most of the participants were between 66 and 75 years. Most of the participants lived in a couple. Some of the participants living in a couple stressed that financial decisions, such as for example extracting housing wealth, were taken by the couple and not by the participant alone. Five households lived in a single-family dwelling and three in an apartment. All participants have accumulated considerable housing wealth within their dwelling. Three participants had no mortgage left, while five participants still had mortgages, ranging from 21% to 65% of the value of the dwelling. The incomes of the participants were spread rather evenly, whereas civil servants seem to be overrepresented as far as the profession of the participant is concerned. Most of the participants have indicated that they would like to participate in a follow-up meeting which shows their commitment to the topic.

Table 1 Characteristics of the participants of the first Dutch focus group

	1	2	3	4	5	6	7	8
Gender	Female	Male	Male	Male	Male	Male	Male	Female
Age group	55-65	66-75	66-75	66-75	66-75	66-75	55-65	< 55
Household type	One person	Couple	Couple	Couple	Couple	Couple	Couple	2 households in 1 dwelling
Dwelling type	Single-family dwelling	Apartment	Single-family dwelling	Single-family dwelling	Apartment	Single-family dwelling	Single-family dwelling	Apartment
Value of the dwelling in Euro	450,000	260,000	400,000	1,6 million	180,000	500,000	195,000	230,000
Value of the mortgage	0	160,000	186,000	0	0	325,000	45,000	50,000
Household income	Below average	Below average	Above average	Above average	Average	Above average	Above average	Does not want to say
(former) profession	Graphic designer	Salesman	Policy advisor (civil servant)	International banker	Chauffeur	Civil servant	Policy advisor	Civil servant
Willing to participate in a follow-up session	Maybe	Yes	Yes	Yes	Yes	Maybe	Yes	Yes

2.13.4 **Findings:**

2.13.4.1 Current housing situation and the meaning of home ownership

The meaning of home ownership and the financing of the dwelling

Various participants indicate that they have chosen to become homeowner because home ownership is cheaper than renting. Also, people that buy a home have more choice on the housing market than people that rent a home:

Terraced houses can also be found in the rental sector but if you are for example looking for a house with a big garage, you have no other choice than turning to the home ownership sector.

The preference for homeownership is probably related to the fact that the Netherlands still has a fiscal system in which mortgage interest payments can be deducted from the taxable income. Moreover, until some years ago, it was allowed to keep the mortgage

amortization free (interest only mortgages) while at the same saving for the amortization of the mortgage at the end of its term through tax free saving accounts or stock accounts. Particularly the products with stock accounts turned out to be very disadvantageous for the consumers because of disappointing results on the stock market and high costs for provisions and insurances. Such products, called a *woekerpolis*, were taken up by several of the focus group participants.

All participants have accumulated considerable wealth in their dwelling. Various participants, especially those with a limited pension, indicate that they are interested in liquidizing part of their housing wealth. As one of the participants states: *My idea was, I buy a house and if things go well the house increases in value. Later on in life, I can then use the value of my house as a supplement to my pension or for buying expensive health care, although I hope the latter is not necessary.*

Other properties

Only one of the 8 focus group participants has a second home. This home is not rented out but used as a holiday home. There is also a participant that has bought two garage boxes. One of these boxes is rented out, the other one is provided rent free to an acquaintance. Finally, there is a participant who lets out a part of her dwelling.

2.13.4.2 Income after retirement

The first column of Table 2 presents various sources of income in retirement. We asked the participants to identify the ones they were receiving from this list and rank them in order of their importance. The purpose of this exercise was to understand how prominent housing was among different sources of income.

Table 2: Sources of Retirement Income

Source of Retirement Income	Count of Participants	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
State Pension (*AOW*)	8	3	4	1		
Occupational Pension	7	5	2			
Private Pension Insurance	3			2	1	
Housing (the house you live in)	8		2	3	2	1
Family	0					
Other Properties (rental income)	2			1	1	
Social Benefits	0					
Other	4			1		

The second column of Table 2 records the number of participants receiving each form of income. Ranks 1 to 5 highlight the level of importance of these various sources. Rank 1 signifies the most important form of income while rank 5 indicates the one that is least important. All 8 participants receive a state pension whereas seven out of eight participants also receive an occupational pension. Both these income sources rank highest in the order of importance. Private pension insurances are relatively less important in the Netherlands. Housing is also a component of the (potential) retirement income that is mentioned relatively often. As one of the participants states:

"*I was 65 years old and I had a big wish which was buying a camper. Now, I have been living like a gipsy in the summer period for about 10 years. However, if my camper needs to be replaced, I can only do so if I take some of the surplus value out of my house.*"

Remarkably, the family is not mentioned by any of the participants. The same goes for social benefits which generally apply more to the unemployed, households with children living at home and households on a very low income. The income from other properties was mentioned by two participants. Finally, there were four participants that mentioned that they had other sources of retirement income. This concerned saving money (2 participants), a heritance, and money from secondary labour activities.

Current pension situation and expectations about the development of the pension

The participants who are not yet retired are worried about their future pension income:

"*I am not retired yet but on paper my pension income doesn't look bad. However, the pension age keeps on increasing and I don't know what my pension income will be when I reach the retirement age. Thus, I am happy with the current situation but I have no idea about how it will further develop."*

The participants who are already retired are in general satisfied with the pension income they receive, although this income is less than when they were still working:

I have less income than when I was still working but my wife has a very good pension. She has worked for the government for 40 years, at schools and in the hospital.

Among the retired participants, there is a general worry about the future development of their pension. They thought their occupational pension would be indexed according to the inflation but in recent years most pension funds have not been able to carry out this indexation. Some occupational pensions even decreased. This especially touches people who are relatively old: *If people are retired for 20 years, their income is considerably less than just after their retirement because their occupational pension is not adapted to the inflation. This may force some people to liquidize the wealth they have accumulated in their home ownership dwelling.*

Furthermore, some participants state that they have had various employers as a result of which they have a so-called breach in their pension development (*pensioenbreuk*). People with a breach in their pension development generally have a lower occupational pension than people who worked for the same employer (almost) all their life.

Whether people want or have to liquidize the housing wealth in their dwelling also has to do with their health situation. In the Netherlands, people who move to residential old age care generally have to sell their house and use the proceeds of this sale for paying for the care: *Liquidizing housing equity in old age is more and more becoming a fact of life for the older generations. This particularly applies to people who don't age in good health. They have to eat up their own dwelling and will therefore lose it anyway.*

Pensions of the younger generation

There was a vivid about the pensions for the younger generation. One participant kicked off this discussion by stating that the young generations live too relaxed and easy: *They do what they want, the travel and go out, irrespective of whether they have money or not. Saving is not an issue for them*. The general feeling is that the younger generations don't think much about their future pension. There is, however, some understanding for this: *When I was 30 myself I had no idea about my future pension. That was so far away. It was only much later that I started to think about it.* There is also appreciation for the changed demographic situation: *The people in their thirties and their forties now pay for the big grey group that we are. While we are generally in a relatively good financial situation, their future situation will be less positive*.

2.13.4.3 Attitudes to forms of housing equity withdrawal (vignette)

The participants were presented with a case study to gather information on their attitudes to forms of housing equity withdrawal. We asked them to act as financial advisers to a retired couple who are roughly about 70 years of age. The case study is as follows:

> An older retired couple (age around 70) without children lives in an a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners (they have already paid off the mortgage). The couple is having financial problems; their retirement income is insufficient to cover their expenses. Therefore, they are thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following five options:
>
> - Sell the house and move to a rental dwelling;
> - Sell the house and move to a smaller home ownership dwelling;
> - Sell the house and rent it back (sale- and lease-back);
> - Stay in the house and use a financial product to extract the housing equity;
> - Let out part of the dwelling.

We asked the participants to rank these options from 1 to 5 as financial advisers to the couple in this case study. Table 3 presents the results of this ranking process. The table clearly shows that all options have their proponents and their opponents. There is no option that clearly stands out as the most desirable one. One of the participants mentions that he misses an option: the *viager* option that exist in France. In this option, you sell your house but you can live in it until you die. The buyer of the house cannot evict you and can only use the house as he/she likes when you die. Of course, the price of the house is than dependent on the life expectancy of the person that occupies it. Within the group there is some discussion on this option. One of the participants states that the viager option is dangerous because the buyer of the house speculates on the death of the person who occupies it. Someone else responds that there is nothing wrong with speculation: *We all buy houses in the hope that their value will increase.*

Table 3: Options to release housing equity and their ranking

Options	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Sell the house and move to a rental dwelling		3	2	2	1
Sell the house and move to a smaller home ownership dwelling	3	1	1	2	
Sell the house and rent it back (sale- and lease-back)	1	2	2	2	1
Stay in the house and use a financial product to extract the housing equity	2	1	4		
Let out part of the dwelling	2		1		3

In the remainder of the discussion, the various options from the vignette (table 3) were discussed in more detail.

Sell the house and move to an rental dwelling

No-one choose this as the first option but for some people it is the second or the third option. The main disadvantage of this option is that renting is more expensive than home owning: *For a similar house you will pay more so your housing costs will increase.* The fact that the housing costs will increase over time is also mentioned as a disadvantage. An advantage of this approach is that you liquidize a large amount of money. Different from option 2, you don't have to buy a new house again.

Sell the house and move to a smaller home ownership dwelling

The advantages of this option correspond to the more general advantages of home ownership discussed earlier in the session: it is cheaper than renting and there is more choice on the housing market. Moreover, different from renting, the housing costs do not increase in the course of time. A disadvantage of this option is that you collect less money than in the other options. In relation to this, one participant states that this option is only feasible if the house has already been paid off.

Sell the house and rent it back (sale- and lease-back)

One participant put this option in the first place. This participant has read about the possibilities and states that it is very important to select a reliable company if one wants to engage in such a construction. After all, companies will only offer this option if they can make a profit and this profit is made at the expense of the homeowner. What is the price that the company will pay to the home owner? And how much rent does the home owner have to pay?

Most participants agree that the biggest advantage of this option is that one can continue to live in the same house. Nevertheless, again it is stressed that ultimately the health situation determines whether this is possible or not. One participant states that because of health reasons, he has exchanged his single-family dwelling for an apartment about ten years ago: *We are living for 10 years here. In an apartment with everything on the same floor. The General Practitioner is downstairs, just as the pharmacy and the physiotherapist. And if something happens, the hospital is very close. My wife has a donated kidney and she always has the fear that something will happen to her health. Fortunately, I was able to sell my old dwelling against a good price so that I could buy this apartment with only a small mortgage.* Another participant agrees that at a certain age, it is important to decide whether you want to stay in your current dwelling, or whether you want to make a last move to a dwelling that is more adapted to the needs of older people. One of the participants states that people often postpone this decision and only move if they have no other choice: *It is a problem. At a certain moment you have to take a decision. But often, you will only do so when it is too late. As long as you feel good, you stay where you are.*

Let out part of the dwelling

Letting out part of the dwelling is an option on which the opinions differ quite a lot. The participant who owns two houses indicates that it would be possible to let out one of these 2 houses. However, she prefers to sublet a part of one of the houses, so that she can continue to enjoy the amenities of both houses: *I have organized my house in such a way that I can sublet it. I have added an extra kitchen and bathroom and a separate entrance for the tenant.* Other participants indicate that not every dwelling is suitable for subletting.

Scenario's

We asked the participants if they would advise the couple differently if:

- The house is old and in urgent need of repairs.
- The couple is healthy and they would like to use the surplus value of the dwelling to buy a camper.

The participants agree that the above scenarios would have an influence on the strategy that they advise the couple to follow. One participant advises the household in the vignette to move to an apartment in the case of scenario 1. Another participant states that the bad state of the dwelling will have a negative influence on its value and the possibilities for selling it: *This happens if you own a house. You have to maintain it otherwise the value decreases.* For some participants, the maintenance of the house might indeed be a reason for advising the couple to move: *If you get older, there are many things which you cannot do anymore. In the beginning of your retirement, you think "I am going to paint my house myself". However, there comes a time when you are not able to climb a ladder anymore.* Another participant adds that when you don't have children who can do it for you, the maintenance of the dwelling can become very expensive.

2.13.4.4 The participant's own opinion about releasing housing equity

Some of the participants have already applied some of the strategies described in the vignette. There is one participant who has moved to a smaller homeownership dwelling and another one who lets out part of her dwelling. Other participants are considering the possibilities of releasing equity. As one participant states: *I am enjoying my house less than before because my grandchildren are now too old to play in the garden. The house is big and requires a lot of maintenance. I am not sure if it is a good idea to keep on living there. The question is what strategy is best for us, not so much in financial terms but more in terms of our physical and mental health. We should make a sensible choice, whether we like it or not.* Another participant adds that it has to do with the life course: *if you are young, you live in the city and if you get children you move to a more quiet environment where the children can grow up safely. Every time, you have to find housing that best suits the phase in the life course you are in.*

Attitudes to bequest

After the break, we explained the basics of Equity Release Schemes: these are financial products that allow you to release housing equity will at the same time they allow you to stay in your dwelling until you die. Because ERS schemes result in a higher mortgage, there is less surplus value in the dwelling left when the homeowner dies. This has a negative effect on the amount of inheritance. Therefore, we discussed the attitudes to bequest and to inherit among the participants.

One of the participants without children states that it is not important for her to leave an inheritance. However, there is also a participant without children who argues that the inheritance should go to her cousins. This participant has laid this down in a will and hopes his cousins will take care of him when he gets old and needy. The participants with children state that, although they are happy to leave an inheritance to their children, this doesn't influence their current spending pattern and their decision to release housing equity or not: *We don't save for our children. Let that be clear.* Another participant adds: *I am in the same situation. I have two daughters but I don't feel I should leave them a heritance. I have no idea how much I have to pay for care in the years to come. Suppose me wife and me die together at this moment, then the children receive the house and quite some money. But if we die over 10, 20 or 30 years there is probably not much left.* It is also stated that it is important to keep your financial independence in old age: *You don't want to be in the situation that you have to ask your children for money.*

2.13.4.5 Experience with Equity Release Schemes (ERS-schemes)

None of the participants has experience with using ERS-schemes. There is one participant, however, who wanted to take out a second mortgage in order to renovate her house but did not get it from the bank, even though her house was completely paid off. For small mortgages, banks apparently only look at the income and not at the value of the house. Other participants agree that banks have become much more stricter in recent years. Young people that want to buy a house have to put in much more money from their own than before. One of the participants, who has worked for a bank, 'defends' the banks and says it is not bank itself but rather the regulation around banks that causes the problems that are mentioned. There was some discussion on the question whether the GFC has been caused by the banks or by the people who took out such high mortgages. In the end, all participants agree that it is ridiculous that the participant who started the discussion cannot get the small mortgage that she wants. As one participant states: *This is a sad situation, not being able to get a second mortgage if your house is paid off and worth half a million Euros. It really is ridiculous.* The participant that asked for the mortgage concludes: *In the end I paid for the renovation myself. But I wanted to use that money for other things, keep it as a buffer. I was client of this bank for 30 years but after they refused to give me a mortgage I left this bank immediately!*

Another participant indicates that a couple of years ago, he also oriented himself on the possibilities to extract housing wealth. He had a surplus value of 100,000 Euro and a good income but the bank nevertheless refused: *It had to do with new regulations after the crisis. It would have been easy in the past but it was not possible anymore.*

One of the participants states that the strictness of the banks is probably only temporary. Once the economy starts growing again, the regulation will be released: *This will change. If the crisis is over, the banks will put the people up with high mortgages and 'woekerpolissen' again. The regulation will be liberalized. These things come and go. There is no tendency into the right direction*. Another participant explains that the Netherlands is traditionally a country of high mortgages, different from for example France and Germany where people have to pay rather large down payments in order to be able to buy a house. *Before the crisis, it was possible to borrow up to 120% of the value of the dwelling and as a result of this our debt became too high. It's only logical that the government wants to reverse this. Also, one should not forget that the interest rates are very low nowadays but this may not last forever. In the 1970s and 1980s, we have had periods with very high interest rates.*

One of the participants stated that she expected to receive advice about specific ERS products that would be applicable to her own specific situation. The moderator explained that this is not the aim of the project. We merely want to investigate the wishes and demands of the participants, from a scientific point of view. Moreover, the truth is that there are very little Equity Release Schemes available at this moment in the Netherlands.

Information on Equity Release Schemes

We asked the participants where they would expect to find information on ERS products. In reaction to this question, one of the participant mentioned that he would look for information on ERS schemes on the website of the Dutch association for Homeowners (VEH). He mentions that he is planning to further dig into the topic because he wants to give advice to his brother-in-law.

2.13.4.6 Opinions about Integrating Equity Release Schemes and pensions

We asked the participants who they feel about a possible integration of ERS schemes and pensions into one comprehensive product. One of the participants is reluctant about

this: *I don't trust it. If you think about what happened in recent years. With mortgages and everything… I would say no….* Another participant replies: *there should be an efficient organization above it. An organization that really says: this product is fair and it works well.* Another participant: *it may work if people would have an in-built chip which terminates the life of the home owner after the value of the dwelling has been completely eaten up.* All other participants: *No, no. This is not necessary!*

One participant thinks that connecting mortgages and pensions leads to more individual pensions that undermine the solidarity of the current Dutch occupational pension system. Another participant disagrees with this: *It is not one thing or another. It is about the connection. You will continue to build up your own pension with on top of that a supplement from your own house.* One of the participants asked what happens of you move house. Matters with regard to pensions already get complicated if you change jobs: *Things will be even more difficult if moving house also has an influence on the pension payments.*

One participant states that she would support a connection between pensions and mortgages. Another participant remarks that it already works like this in Southern Europe. There, people traditionally invest their saving money into 'brick and mortar' because there is such a high inflation.

The general conclusion seems to be that there is an interest in ERS schemes but that the current supply of such schemes is insufficient. Moreover, the products that are available are not trusted. The participants suspect that the providers of ERS schemes are making too much profit, at the expense of the home owners. One of the participants claims that ERS schemes can only work if they are well regulated by the government, and supported by the politicians. There should for example be a government guarantee. Moreover, the government may consider to actively support ERS schemes, for example by not raising a transfer tax in case of sale-and lease back constructions that are used for pension purposes. ERS schemes will only work if they are backed up by a good institutional and regulatory structure: *The government should facilitate and not punish. Without support of the government we can talk about these products for a long time but nothing is going to change.*

Furthermore, home owners associations such as *Vereniging Eigen Huis* should try to put this topic on the policy agenda. Providers of financial products, consumers organizations and the government should start a dialogue in order to come to a good regulatory and fiscal arrangement for ERS schemes. Finally, it is important that there are many different providers so that consumers have something to choose and there is real competition. Currently, there are only three big banks in the Dutch financial market. This is insufficient if one wants to have real competition. There should be more banks that offer ERS products and also foreign banks should have the opportunity to enter the Dutch market (they did so in the past but after the start of the GFC they largely withdrew their activities): *The government should regulate the market in such a way that there is real competition between providers. If they don't do this, monopolies will emerge. Look at Google, look at Facebook.*

At this moment, the offer of reliable and attractive ERS schemes is considered insufficient in the Netherlands: *If we want to liquidize our housing wealth, the only real option we currently have is moving house.*

The participants think that people who use an ERS scheme should be able to choose freely between a lump-sum payment and a monthly contribution: *Every situation is different. For example, some people need a large sum of money to renovate their dwelling whereas other just prefer to receive a supplement on their monthly pension.*

2.13.4.7 Trust in providers of financial products

Equity release products may be provided by different parties: banks, insurance companies, co-operatives, pension funds or the government. Just looking at the list of

providers, which of these you think are the most trustworthy in relation to ERS products? As table 4 shows, on average the trust in most (potential) providers of ERS products turns out to be just sufficient (5.5 or higher). Nevertheless, insufficient grades (5 or lower) are given to each provider by at least one of the participants. On average, the trust in insurance companies is lowest (4.6). This is due to the fact that one participant gave the insurance companies the grade 1 because they sold the so-called *woekerpolis.* The trust in the government (on average 6.1) largely varies, with three participants giving insufficient grades and another three participants giving relatively high grades (7 or 8). One participant mentions that cooperative constructions are now on the rise in the Netherlands, for example in the field of insurances for independent professionals. The participants agree that co-operatives could also function as provider of Equity Release Products. It is a pity that this option is not mentioned on the card. Cooperatives can be a good solution because they share risks between participants. One of the participants argues that this risk sharing also takes place within the occupational pension funds: *If you get very old, you are lucky because you keep on receiving a pension until you die. If you die soon after your retirement, you only have a very limited profit of your pension fund.* All participants agree that the government should regulate the market for ERS products but it should not provide such products itself: *The government is needed for regulation. There is no alternative. People may start a co-operative but they need a framework within which this co-operative works.*

Table 4: Trust in potential providers of Equity Release Products

Provider	**Grades given**	**Average**
Banks	6 7 5 4 6 6 6 4	5.5
Commercial companies	5 4 3 4 6 6 7 2	4.6
Insurance companies	7 7 6 5 7 6 6 1	5.6
Occupational pension funds	7 7 7 7 4 7 7 7	5.8
Government	5 7 4 6 8 5 8 6	6.1

Conclusion

We conclude that there is a substantial interest in, and potential demand for, ERS schemes. This is distinct from the findings of earlier research (before the GFC) on this topic that showed that most people seemed to be satisfied with their pension and only had limited interest in ERS products. We think this shift is caused by the following factors:

- The increasing number of independent professionals who are not covered by occupational pension funds but have to save for their own pension;
- The fact that older people have to pay an increasing part of their old age care costs by themselves;
- The fact that occupational pensions are getting less and less generous;
- The fact that people are living longer in their dwelling; they often have to adapt the dwelling (requires investment) to make this possible.

At the same time, we have observed that the current supply of ERS schemes in the Netherlands is limited and that the current providers of such products are not trusted very much. Consequently, a restructuring of the supply side of the market, as well as

better a government regulation, are needed in order to assure that the ERS-products in the Netherlands really get off the ground.

Other interesting findings:

- Homeownership is generally considered to be cheaper than renting;
- Decision regarding residential mobility and liquidizing housing wealth are not only related to financial considerations but also to health reasons;
- It is not very important for most Dutch home owners to leave a heritance to their children;
- Co-operatives are seen as a suitable provider of ERS schemes.

2.14 The Netherlands: Focus Group 2 (September 2016)

2.14.1 **Introduction**

We welcome you all and warmly express our gratitude for your participation in this focus group meeting. My name is Joris Hoekstra and this is my colleague Kees Dol. We both work at the Delft University of Technology. We are here today to talk about the topics of housing equity and retirement income. More in particular we will deal with the following questions:

- To what extent do people need a supplement to their income after retirement?
- Which strategies can be used to extract housing wealth from the home ownership dwelling? What are the pros and cons of these strategies?
- Is it possible to come to an financial product in which mortgages and retirement income are integrated?

This focus group discussion is a part of a bigger research project funded by the European Commission. Focus groups like this one will be carried out in the following six countries: Germany, United Kingdom, Ireland, Italy, Hungary and the Netherlands. In each of these countries, three focus group discussions are planned. Two of these three focus groups are meant to assess to what extent there is an interest among consumers in extracting housing wealth. The third focus group takes place later in the project and is meant to test the financial product that we aim to design. The participants for the focus groups were recruited through the online membership panel of the Dutch association of homeowners (*Vereniging Eigen Huis*). We are grateful to this organization for their help and we will share the results of our research with them.

Before we will start the real discussion and I will give you the chance to introduce yourself, I would like to share some practical information with you. As you might be aware, a group discussion is an informal discussion about your views, experiences, concerns, desires etc. with respect to the subject matter. Thus, you are the experts today. There are no right or wrong answers and I would like you to say what you honestly think. Furthermore, we would like to ask you to respect each other opinions and to let the other participants finish their sentence before you interrupt. The discussion will be very hard to follow for us if two or more persons speak at the same time.

My role is to moderate the discussion. I am not here to give you my own opinion or to provide advice on financial products. Your perceptions are what matter. However, it is also my task to keep an eye on the time. There are many different things that we would like to discuss with you so sometimes I may have to cut off a discussion because we have to move on to the next topic. Half way the discussion, we will have a short break so that you can get some fresh air, take a drink or go to the toilet. In order to be able to properly analyse the focus group results, the discussion will be recorded with the help of an electronic device. Based on the recordings, we will make a written transcript. A summary of this transcript will be send to you in due course for your information and approval. Based on the transcripts we, as researchers, will write a research report. In this research report, all participants will remain anonymous. When the research project is finished, in the autumn of 2017, we will also inform you about its overall results.

2.14.2 **Methodology**

We used the building of the Faculty of Architecture of Delft University of Technology for conducting the focus group session. The individuals who participated in the session were recruited through the membership panel of the Dutch association of home owners (*Vereniging Eigen Huis).* This online panel has more than 20,000 members who are regularly asked to participate in surveys of *Vereniging Eigen Huis* (VEH), or of organizations with which VEH co-operates. A total of 5.000 panel members was

approached with the question if they wanted to participate in a focus group discussion. Households who responded positively to this question were requested to fill in a short online questionnaire. In total 80 panel members filled in this questionnaire which corresponds with a response rate of 1,6%. This may seem rather low but it should be kept in mind that not all panel members belong to the target group of the research (all focus groups participants should be between 55 and 75 years), and that some panel members live quite far away from the venue where the focus group session took place. Of the 80 people who filled in the questionnaire, 18 were invited by telephone to participate in the focus group discussion. The invited people subsequently received an E-mail which confirmed their participation and provided some practical information about the venue. The selection of the 18 participants took place on the basis of three main criteria:

- The availability of people on the dates and times we had planned for the focus group: August 31 from 14.00 to 16.30 and September 7 from 19.00 to 21.30.
- The geographical location of the dwelling. We mainly selected households from the so-called Randstad area. This is the most urbanized and populated area of the Netherlands, located in the West of the country.
- The background characteristics of the participants. We have tried to realize some spread within each of the focus groups with regard to the following factors: age, dwelling type, value of the dwelling and gender. As far as gender is concerned, it should be noted that the number of female participants was rather low. This is due to the fact that of the 80 people that indicated that they wanted to participate, only 7 were female. Apparently, talking about housing finance is mainly a man's affair in the Netherlands.

We invited 9 people for the second focus group. One of the invited people did not show up without further notice so we carried out the focus group with 8 participants.

The meeting lasted for two hours and fifteen minutes, with a ten minute break in the middle. The meeting was moderated by Joris Hoekstra, with Kees Dol as assistant-moderator. A Power point presentation was used to guide the focus group participants through the main topics of the interview guide. After the meeting, all participants received a gift card of 25 Euro as a reward for their participation and as compensation for the time and travel costs that they spent.

2.14.3 **Data**

Table 1 provides a description of the characteristics of the participants of the second focus group. The data for this table is derived from the online questionnaire that people who were interested in participating in the focus group had to fill in, as well as from the short questionnaire that the focus groups participants were requested to fill in after the focus group had ended. As table 1 shows, there were 7 male participants and there only was 1 female participant. Five participants were aged between 55 and 65 years and three participants were aged between 66 and 75 years. All of the participants lived in a couple and two of them also had children living at home. Some of the participants living in a couple stressed that financial decisions, such as for example extracting housing wealth, were taken by the couple and not by the participant alone. Six participants lived in a single-family dwelling and two in an apartment. All participants have accumulated considerable housing wealth within their dwelling. Two participants had no mortgage left, while six participants still had mortgages, ranging from 8% to 71% of the value of the dwelling. Almost all participants had an above average income. Most of the participants have or had a professional or managerial job in the private sector. All participants have indicated that they would like to participate in a possible follow-up meeting, which shows their commitment to the topic.

Table 1 Characteristics of the participants of the second Dutch focus group

	1	2	3	4	5	6	7	8
Gender	Female	Male	Male	Male	Male	Male	Male	Male
Age group	55-65	55-65	55-65	66-75	66-75	55-65	55-65	66-75
Household type	Couple	Couple with children living at home	Couple with children living at home	Couple	Couple	Couple	Couple	Couple
Dwelling type	Single-family dwelling	Single-family dwelling	Single-family dwelling	Apartment	Single-family dwelling	Single-family dwelling	Apartment	Single-family dwelling
Value of the dwelling in Euro	465,000	600,000	250,000	275,000	600,000	350,000	360,000	550,000
Value of the mortgage	333,000	392,000	130,000	0	50,000	0	195,000	175,000
Household income	Above average	Above average	Above average	Above average	Above average	Above average	Above average	Average
(former) profession	Independent business consultant	Entrepreneur	Independent IT consultant	Facility manager	Policy advisor (civil servant)	ICT manager	Sr. maintenance engineer	Director
Willing to participate in a	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

follow-up session								

2.14.4 **Findings:**

2.14.4.1 Current housing situation and the meaning of home ownership

The meaning of home ownership and the financing of the dwelling

Various participants indicate that they have chosen to become homeowner because home ownership is cheaper than renting: I started to work in Amersfoort in 1974 and there I could rent private rental houses with rents of around 1000 guilders. My salary was also 1000 guilders so if I would choose to be a tenant I would have nothing to eat. The waiting lists for social housing were very long so buying a house was the best option for me.

Various participants have made a genuine housing career and moved house several times since they first bought a home. One of the participants has a mortgage product that is connected to the stock market. He has lost a lot of money on this product and started a foundation in order to convince the banks to pay compensation to the victims of this product (at the moment of writing this compensation has not been paid).

Another participant states that he has been living in a home ownership single family dwelling for more than 30 years. However, he now wants to move to an apartment because his current dwelling requires a lot of maintenance. Two participants mention that they want to use part of the surplus value in their house to help their children on the housing market. One of these participants already took action in order to achieve this: I have bought a new apartment that will be finished in 2018. The price of this new apartment is much lower than the value of my current house and with the difference I can help my children. They are just starting their housing career and I help them with financing their first home ownership dwelling.

Yet another participant states that he has already made the move from a single-family dwelling to an apartment. He says he misses his garden and the view over the river that he had. But this is largely compensated by the advantages of living in an apartment in the centre of the town: more comfort, better accessibility etc…..

Other properties

One of the 8 focus group participants has a second home that he rents out. He bought this house when things were going financially well for him.

2.14.4.2 Income after retirement

The first column of Table 2 presents various sources of income in retirement. We asked the participants to identify the ones they were receiving from this list and rank them in order of their importance. The purpose of this exercise was to understand how prominent housing was among the different sources of income.

Table 2: Sources of Retirement Income

Source of Retirement Income	**Count of Participants**	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
State Pension (*AOW*)	8		4	2	2	
Occupational Pension	8	5		2	1	

Private Pension Insurance	5	1		4		
Housing (the house you live in)	4		2		2	
Family	1	1				
Other Properties (rental income)	1		1			
Social Benefits	0					
Other	3	1				

The second column of Table 2 records the number of participants receiving each form of income. Ranks 1 to 5 highlight the level of importance of these various sources. Rank 1 signifies the most important form of income while rank 5 indicates the one that is least important. All 8 participants receive a state pension and an occupational pension. In general, the occupational pension is higher than the state pension which resonates the fact that most participants had a well-paid job. Five participants also have a supplementary private pension insurance which generally ranks third in the ranking. Housing is mentioned by half of the participants: two put it on the second position and two on the fourth position. One of the participants who ranked housing in the second position explains that she and her husband are independent professionals. They expect the state pension to go down in the future and only have a relatively limited private pension insurance. This means that the value of the home becomes an important income source in retirement. The couple is already looking at the best way of extracting this housing wealth. They are considering sale of their dwelling but they are thinking of taking out an amortization free interest only mortgage. The latter option seems very attractive with the current low interest rate. Selling the house and moving to a rental dwelling is less attractive for this couple because the waiting times in the (social) rental sector are very long. One of the participants mentions that his dwelling is mortgage free and as such he has no housing costs. In that sense, his dwelling also functions as a source of income.

The family is mentioned by one participant who puts this aspect on the first place of the ranking. This participant explains that his family is very important for him and that he supports them as much as he can, also financially. At this moment, he does not need (financial) support of his family himself but he is sure that his family will support him if he needs help.

One participant has a second property from which he receives rental income. This rental income ranks second in his total retirement income. Social benefits are not important among this group of participants. This is related to the fact that almost all participants had a rather high income and are therefore not eligible for such benefits. Finally, there are three participants who mention other sources of retirement income. This concerns financial equity, revenues from an own company and a private pension that has been built up within an own company (*pensioen eigen beheer).*

Current pension situation and expectation about the development of the pension

One of the participants states that he is satisfied with his current retirement income. However, he is annoyed about the current discussion on pensions in the Netherlands: *They say that pensioners are richer than ever. This is true but my children that are in*

their thirties and forties are also much richer than I was at that age. Also, people often state that in the past, young people could study at university as long as they wanted. However, you should keep in mind that when the baby boomers were young, only 10% of the people went to university. Many people of the generation that is currently retiring started to work at a very young age. In other words, the participants argue that one should not exaggerate the privileges of the current older generation. In relation to this, it is mentioned that also nowadays, there are many older people that have to live on a low income.

One of the participants states that the current occupational pension system in the Netherlands is far from transparent: *It is a black box. They say the pension payments are related to the interest rates. If the interest rate goes down, the pensions also go down. But does it really work like this in reality? There is also inflation and no one ever talks about that…...* Another participant adds that the government changes the regulations all the time: *There is no security, there are no guarantees.* One of the participants illustrates this with his own situation: *Eight years ago the company where I work was taken over and I moved to another occupational pension fund. They made a calculation of the consequences of this move and said that I would receive a pension of more than 30.000 Euro when I would retire. Now, we are eight years ahead. My pension will now be 26.000 Euro and I have to work 2,5 years more…….*

Pensions of the younger generation

One participant explains that he expects the occupational pension to disappear. Future pensions will probably be paid out on an individual basis, in the form of an individual insurance. Several other participants agree with this observation. It is observed that people change jobs much more frequently than before and that there are more and more independent professionals. This would plea for an individual pension insurance. Nowadays, many independent professionals don't save for their pensions. In order to prevent this, the government could oblige people to put apart a certain percentage of their earnings in an individual pension insurance, it is suggested.

However, there is also a participant that expects that the current occupational pension system will continue to exist because there is strong political support for this system. In relation to this, one of the participants mentions that there is no fundamental difference between an individual private pension insurance and an occupational pension*: it all depends on how old you get. People who die shortly after their retirement pay for the people who receive a pension for a long time. Also insurances have this collective element.* Another participant states that within the current occupational pension system, it is more complicated than that: if people die early, their relatives will receive a so-called widow or orphan pension. In relation to this, one participant mentions that the subject matter is too complex to understand and arrange on an individual basis for at least 95% of the population. Collective arrangements, such as the current occupational pension funds, might then be a better option.

2.14.4.3 Attitudes to forms of housing equity withdrawal (vignette)

The participants were presented with a case study to gather information on their attitudes to forms of housing equity withdrawal. We asked them to act as financial advisers to a retired couple who are roughly about 70 years of age. The case study is as follows:

> An older retired couple (age around 70) without children lives in an a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners (they have already paid off the mortgage). The couple is having financial problems; their retirement income is insufficient to cover their expenses. Therefore, they are thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following five options:

- Sell the house and move to a rental dwelling;
- Sell the house and move to a smaller home ownership dwelling;
- Sell the house and rent it back (sale- and lease-back);
- Stay in the house and use a financial product to extract the housing equity;
- Let out part of the dwelling .

We asked the participants to rank these options from 1 to 5 as financial advisers to the couple in this case study. Table 3 presents the number of individuals who ranked the first option as their first advice and so on. The table clearly shows that all options have their proponents and their opponents. Nevertheless, downsizing (selling to house and moving to a cheaper home ownership dwelling) seems to be the most advised option, whereas there is also considerable support for selling the house and moving to a rental dwelling and, to a somewhat lesser extent, using a financial Equity Release Scheme (ERS). Engaging in sale-and-lease back constructions and letting out part of the dwelling are clearly less advised strategies.

The discussion starts with some confusion about the nature of ERS. One participants thinks that ERS lead to a higher housing costs because interest has to be paid on the money that is taken out of the dwelling. In response to this, another participant explains that this is not the case because everything (pension supplements and interest payments) is paid out of the surplus value of the dwelling. The question then is what happens when this surplus value is gone and the house is completely (re)mortgaged. Can you then continue to live in your house or do you have to sell it in order to pay back to bank? Also here, the French *viager* option (you sell your house but get the right to live in it until you die) is mentioned as a possible alternative. The moderator explains that this option is not on the list because it is not possible (yet) in the Netherlands.

One of the participants mentions that he doesn't like the idea of using his housing equity as a supplement to his pension. He want to leave a heritage to his children: *Our society is so well organized that releasing housing equity in old age for pension purposes should not be necessary. Older people already contribute a lot to society, by the taxes that they pay and the insurances that they have.*

Another participant says that people that want to support their children financially should start with this early: *The younger they are, the more they need financial support. If they are 55, they don't need it anymore.* Another participant agrees: *it is better to give with a warm hand than with a cold hand.*

Table 3: Options and their rank

Options	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Sell the house and move to a rental dwelling	2	1		3	1
Sell the house and move to a smaller home ownership dwelling	4	3	1		
Sell the house and rent it back (sale- and lease-back)		1	4	2	
Stay in the house and use a financial product to extract the housing equity	2		2	2	1
Let out part of the dwelling		3			5

In the remainder of the discussion, the various options from the vignette (table 3) were discussed in more detail.

Sell the house and move to an rental dwelling

This option is seen as particularly attractive for people that are very old (85 rather than 70). For those people it can be attractive to receive a large sum of money and to have no worries about maintenance: *If you are 85, you don't have the energy anymore to contract people that will maintain your dwelling. It is then better to rent.* Several other participants agree that having no responsibility for the maintenance of the dwelling is a big advantage of renting. However, people who choose for this option when they are 70, might have to pay rent for 20 more years. This is not attractive because rents in the Netherlands are high and moreover they increase year by year. For younger people, let say around 70 years, downsizing to a home ownership apartment might therefore be a better option: *If I look in our apartment complex, there are both rental dwellings and home ownership dwellings. The people in rental dwellings pay 1200 to 1300 Euro a month whereas the people in the home ownership dwellings only have housing costs of 400 to 500 Euro.*

Sell the house and move to a smaller home ownership dwelling

This option is the preferred one since it releases housing equity, doesn't lead to higher housing costs and probably leads to less worries about maintenance, particularly if one decides to move to an apartment.

Sell the house and rent it back (sale- and lease-back)

The sale-and lease back construction doesn't get a high rating because most participants don't trust it: *It is very commercial. You become dependent on the landlord and you lose your say over the dwelling.* One participant even sees sale and lease back constructions as a new variant of the *woekerpolis (*in transparent financial products that lead to high yields for the providers and very low yields and often even high costs for the consumers*).*

Let out part of the dwelling

One of the participants indicates that he is not in favour of letting out part of the dwelling: *Because you are in financial trouble you let other people live in your house.*

I don't think this is a good motivation for subletting part of your dwelling. Another participant adds that much depends on the size of the dwelling, as well as on the person that starts to live in your house. Is it only subletting or is there also care involved? In the latter case (offering cheap or rent free housing in exchange for old age care) letting out part of the dwelling might actually be an attractive option for the people in the vignette. A disadvantage of subletting part of the house is that it may harm your privacy, particularly if the tenant does not have a separate entrance or separate facilities. As one of the participants states: *the older you get, the less flexible you are.*

Scenario's

We asked the participants if they would advise differently if:

- The house is old and in urgent need of repairs;
- The couple is healthy and they would like to use the surplus value of the dwelling to buy a camper.
- The participants agree that the above scenarios would have an influence on the strategy that is advised. Several participants would advise the couple to sell the house if the dwelling is in urgent need of repairs, although it is acknowledged that selling such a house won't be an easy undertaking.

In the second situation, an ERS would be a good solution. However, the participants agree that the current offer of such products is not very transparent and attractive. One of the participants has looked into this topic and found out that for example, "the eat your house mortgage" (*opeethypotheek*) of Rabobank requires an expensive taxation of the value of the dwelling, even if you only want to extract a limited amount of money such as for example 10,000 Euro. In order to improve this situation, it is argued that the government should better regulate the banking sector. Banks should only be allowed to offer products that are transparent and understandable for consumers, that don't contain hidden clauses or rules.

2.14.4.4 The participant's own opinion about releasing housing equity

Some of the participants have already oriented themselves on the possibilities to release housing equity, as shown before. In general, the participants have a relatively positive stance towards the concept of releasing housing equity. One of the participants states that releasing housing equity should preferably be a positive decision (for example releasing housing equity because you want to travel), and not one forced by financial circumstances (for example releasing housing equity because otherwise you cannot pay the care costs).

2.14.4.5 Attitudes to bequest

After the break, we explained the basics of Equity Release Schemes (ERS). Because ERS result in a higher mortgage, there is less surplus value in the dwelling left when the homeowner dies. This has a negative effect on the inheritance. We asked the participants to what extent they take this into consideration when thinking about ERS.

One of the participants states that you never know when you die: *It is not wise to release all your housing equity and give it away or spend it. You need to keep some buffer for the future, even if it is only for the funeral, because you never know what the future will bring.* At the same time, most of the participants agree that it is better to financially support your children when you are still alive rather than when you have died. As one of the participants states: I *have generously supported my children financially so they already got what they deserved. Whether I leave an inheritance for them or not, is not so important anymore.* Another participant argues that he is currently investigating ways to release housing equity in order to support his children: *My children need the money now, for studying, buying a house, raising children. I prefer to support them now rather than that they have to wait until I die. But of course, I want*

to keep some buffer so that they don't have to support me when I get older. I would not like that. The other participants agree with this. Staying financially independent and being able to keep your living standard is very important.

There are also some participants who think it is not important to leave a heritance to the children. These people feel that adult children should be able to take care of themselves: *In the short run, my children will have finished their studies. We supported them financially so that they can start their professional career without any debt. But from that moment onwards, they have to rely on themselves.*

2.14.4.6 Experience with Equity Release Schemes

None of the participants has experience with using ERSs but several people are orienting on the possibilities, which was often a reason for participating in this focus group. Several participants indicate that they see ERS as an interesting option. One participant states that the attractiveness of it also depends on the life expectancy: *it becomes interesting if the doctor says you only have 2 years to live.*

Information on Equity Release Schemes

One of the participants explains that he would look for information on ERS on the Internet. He would not go to a bank because he suspects banks will not give an objective advice: they have their own interests.

2.14.4.7 Opinions about Integrating Equity Release Schemes and Pensions

The moderator explains the basic idea of the research project: trying to come to a comprehensive product in which ERS and pensions are integrated. In reaction to this explanation, one of the participants says that ERS should mainly be seen as something extra that temporarily comes on top of the ordinary pension and that can be used to for expenses such as traveling or buying luxury items. This participant states that ERS can never fully replace pensions because at some point in time, all the surplus value in the dwelling will have been used. What happens if you are still alive by then? The moderator explains that it doesn't necessarily have to work like that. One can also think of an ERS in which surplus the value of the dwelling can be used to provide home owners with a supplement to their pension until they die. Because you never know how old people will get, such a product is only possible if elements of insurances and risk pooling are involved. An additional advantage of the connection between pension payments through pensions funds on the one hand, and using the surplus value of the dwelling as a supplement to the pension on the other hand, can be found in the role of the interest rate. If the interest rate is low, the ordinary pension will decrease but house prices will be rising and therefore the surplus value in the dwelling (supplement to the pension) will increase as well. Thus, the total pension income (ordinary pension + pension supplement from ERS) will be less dependent on changes in the interest rate in the case of one integrated financial product.

From the discussion, it became clear that the participants have limited trust in the current banking system. The participants don't understand why the banks are still asking considerable mortgage interest rates, whereas the Euribor interest rate is close to zero. It is suspected that the banks make agreements on the interest rates among each other so that they can earn higher profits. This is also related to the fact that there is limited competition on the Dutch mortgage market. There are only a few providers. This limited competition also applies to the insurance companies. Although there are many front offices, there only are a few big insurance companies. This is not a healthy situation. The participants feel that the government should make sure that ordinary clients get a bigger say over what the banks and insurance companies do. However, the problem with this is that the financial companies operate in an international market whereas individual countries each have their national regulations.

One of the participants argues that the government should be consistent and stable in its regulations: *don't change the rules during the game. The government should scan and assess financial products before they can be brought on the market. Now, they don't do that and they only observe that something is wrong when the problems are already there. Then it is too late to solve the problems.* The participants are skeptical about potential ERS that would pay a one-off contribution rather than a monthly supplement. They fear that some people would quickly spend this money and then turn to the government because they have financial problems.

2.14.4.8 Trust in providers of financial products

There are many potential providers involved in the equity release market such as banks, insurance companies and so on. Just looking at the list of providers, which of these you think are the most trustworthy and the least in relation to ERS (see table 4). On average, the trust in most (potential) providers of ERS turns out to be clearly insufficient (grade 5.5 or lower). Only the co-operatives and the occupational pension funds score a sufficient grade (grade 5.5 or higher). The trust in banks and insurance companies turns out to be very low, although one of the participants adds that some banks can be trusted more than others. The relatively high score of cooperatives is related to the non-profit objective of these cooperatives. Moreover, members of cooperatives tend to have a real influence on the activities of these cooperatives, which is seen as a very positive thing by the participants. Pension funds are also relatively trusted. One of the participants argues that both the government and the trade-unions have a largely influence on the decisions and activities of the occupational pensions funds, whereas the persons who actually save for, or receive the pensions only have a limited say. The relatively low appreciation for the government is related to the fact that many regulations with regard to pensions and mortgages have been changed in a short time period, without giving people the opportunity to anticipate these changes: *The government governs on the basis of incidents, just to get good publicity. They only govern for the short term and don't have a long term vision. They invent all kind of new regulations but have no idea about how these should be implemented in practice.* In other words, the government is seen as unreliable and even incompetent. At the same time, the participants appreciate that in a democracy such as the Netherlands, the government is chosen by the people. As one of the participants states: *we are unreliable ourselves.*

Several participants state that the volatile character of contemporary politics is related to the fact that people don't have patience anymore and want to see quick results. *People are not faithful to one political party anymore but easily 'zap' between parties as they see fit.* Also, the current supervisors of the financial sector are seen as toothless. According to one of the participants, what we would need is some kind of ombudsman for the financial sector.

Table 4: Trust in potential providers of Equity Release Products

Provider	**Grades given**	**Average**
Banks	1 6 6 5 1 5 3 5	4,0
Commercial companies/ insurance companies	1 5 6 4 3 5 3 5	4,0
Co-operatives	7 7 7 6 6 6 6 6	6,4
Occupational pension funds	4 7 7 7 6 6 7 5	6,1

Government	1 5 6 3 8 6 5 5	4,9

Conclusion

We conclude that there is a substantial interest in, and potential demand for, ERS. In this focus group, which mainly consist of people with a relatively high income, most people see ERS as temporary supplement to their pension that can for example be used to help their children. It is argued that it is better to financially help your children (with ERS) when they are relatively young and need such help (for example to buy a home), rather than wait till you die (inheritance) and your children have already settled down. At the same time, it is important not to release your housing equity too much and too soon. The future is insecure so most participants want to keep a financial buffer. They don't want to become financially dependent on their children in old age.

Furthermore, we have observed that the current supply of ERS schemes in the Netherlands is limited and that the current providers of such products are not trusted very much. Consequently, a restructuring of the supply side of the market, as well as better a government regulation, are needed in order to assure that the ERS-products in the Netherlands really get off the ground. A problem here is that even the government is not trusted very much by the participants.

Other interesting findings:

- Homeownership is generally considered to be cheaper than renting;
- Moving from a home ownership single-family dwelling to a home ownership or rental apartment is seen as a good way to release housing equity and save on maintenance costs;
- Co-operatives are seen as a suitable potential provider of ERS schemes;
- The attractiveness of ERS very much depends on the specific details of the scheme: is it an insurance that pays you a supplement to your pension until you die or does the supplement stop when all the housing equity has been used?

2.15 The Netherlands: Focus group 3, Delft (2 October 2017, 19.00-21.00)

2.15.1 **Introduction**

The focus group was led by Joris Hoekstra with Marja Elsinga and Kees Dol as assistant moderators. We told the participants that the discussion was only about equity release products. Strategies such as selling up and buying a smaller dwelling or renting a house were not discussed, although we are aware of the fact that such strategies are certainly not uncommon. We followed the interview guide that was prepared by the TU Delft and guided the participants through the discussion with the help of a Power point presentation.

Personal characteristics participants

There were seven participants, all of whom had attended one of the previous two focus groups. All participants were male and live in a single-family dwelling. They all have accumulated a significant amount of assets into their house. A complete overview of the characteristics of the participants can be found in table 1.

Table 1 Characteristics of the participants of the third Dutch focus group

	1	2	3	4	5	6	7
Gender	Male	Male	Male	Male	Male	Male	Male
Age group	55-65	55-65	66-75	66-75	55-65	66-75	55-65
Household type	Couple with children living at home	Couple	Couple	Couple	Couple with children living at home	Couple	Couple
Dwelling type	Single-family dwelling	Single-family dwelling	Single-family dwelling	Single-family dwelling	Single-family dwelling	Single-family dwelling	Single-family dwelling
Value of the dwelling in Euro	600,000	195,000	400,000	600,000	250,000	550,000	350,000
Value of the mortgage	392,000	45,000	186,000	50,000	130,000	175,000	0
Household income	Above average	Above average	Above average	Above average	Above average	Average	Above average

(former) profession	Entrepreneur bicycle repair	Policy advisor (civil servant)	Policy advisor (civil servant)	Policy advisor (civil servant)	Independent IT consultant	Director	ICT manager

Getting started: experiences with releasing housing equity

At the start of the meeting, we presented a short summary of the findings of the previous two focus groups after which we explained what the coming discussion would be about. The main motive for participants to attend the meeting was interest in the products available. One participant was self-employed and when business did not go very well during the crisis, he thought about a way to draw equity from his house. Currently this is not so relevant for him anymore, because business is up again. Another participant rented for a long time and he receives a relatively small pension because he has worked for an idealistic non-profit organisation for a long time. He has quite a bit of equity in his house, but when he wanted to release some, the financial institutions refused to facilitate this. There was also a participant who has a brother in law of 82 years old with a lot of equity in his house. This relative wishes to spend some of this equity for vacations, but the available equity release products are not very attractive. Finally, there was a participant that sold his family house in order to assist his children in making their first steps onto the owner occupied housing market. This participant released equity by trading down to a smaller owner occupied apartment.

2.15.1.1 Preferences towards current ERS models

After the moderator has explained the features of the loan and the sale model, the participants were invited to discuss the pros and cons of both models. One question arose about the sale model. Does one need to pay a compensation (interest) over the equity that is withdrawn? The moderator explains that the compensation runs through the share of the dwelling that is handed over to the financial company. In practice, the seller will receive a smaller share of the dwelling in cash than the share of the dwelling that is handed over to the financial company, the difference being a compensation (fee) for the financial institution. Another participant asks: *"What happens if house prices decline in the sale model?"* Moderator: *The house price risk is shared between home owner and financial institution.*

One of the participants makes a remark about how maintenance costs are shared in the sale model. The provider of this type of ERS has an ownership right of a part of the dwelling, but how about the responsibilities that come with such shared ownership. Does one make agreements about how to share the costs of maintenance? *"When you paint the dwelling or when you insure the dwelling, does the provider pay his share?"* The other participants agreed that this is an essential point within the sale model. *"Maybe you should make a mini home owners association?". A*s a participant states: *"For apartments there is already a home owners' association that looks after the maintenance. The financial institutions that own shares of dwelling within the framework of the sale model could become part of such a home owners' association. For a single family dwelling you might need to make a separate agreement."*

Another question arises: *"What happens in case the bank has a higher share than 50%? Can they decide to sell?"* The *m*oderator explains that in principle, these products allow the original owner to remain in the dwelling. Other issues that came up were related to add-ons or major refurbishments (other than the regular maintenance). *"What happens when you expand your dwelling?".*

The participants agree that in the sale model, maintenance costs should be shared according to the part of the dwelling that each party owns. In relation to this, one

participant mentions that there is a general norm that states that each year about 0.5% of the dwelling value should be reserved for maintenance costs.

Further on in the meeting, it was mentioned that there is a fundamental difference between the sale model and the loan model. In the loan model, the provider just needs to receive all the money back and does not worry much about the dwelling itself. In the sale model, the provider is a so called silent partner/associate who has some interest in keeping the dwelling's maintenance and value.

How much equity to be released?

The moderator has asked how much people would be willing to withdraw under an equity release scheme. This question immediately led to a discussion on the purpose of such equity release. *"It depends on why you use it. I heard the first purpose is a gift to children, the second is for fun things such as vacations, but the third is because you really need it as a pension provision. With the last one you do not know how long it should last because you do not know how long you will live. What happens if I take out 40% and the money is finished, while I would still need income".* This citation shows that people are worried about the longevity risks that is related to ERS.

Purposes for using home equity

We asked the participants, using a ranking from 1 to 5 (1 = highest proportion, 5 = lowest proportion), to prioritize the different things on which housing equity can be spent. Table 2 shows the results of this ranking exercise.

Participants said that they themselves would not need home equity for daily expenditures. However, one participant ranked this as number 1 because he can imagine that having enough money for daily expenditures is very important for people on a low pension. This participant observes that the Dutch pension system is good, with a reasonable state pension and good mandatory employment related pension incomes. However, he knows people that have lived abroad for a long time and did not accumulate good pension benefits over there. In some countries, pension provisions are not so good and when you return to the Netherlands you may have much less pension than you think. Also, you don't build up state pension if you are living abroad. Consequently, there are people with gaps in their state pension entitlements and their employment related pension. With the increasing internationalisation, this group will only grow stronger in the future. The other participants agree that this can become a problem indeed.

Most of the participants give a rather high priority to medical expenses as a reason for using housing equity. In this respect, medical expenses should be seen as a broader concept including care provisions. One of the participants indicated that the government policies have shifted from providing accommodation in care homes to stimulating older people to live in their current home as long as possible. Being able to do so might require some larger investments such as levelling doorsteps in the house, adapting bathing areas or even installing staircase lifts.

With regard to helping family members, another relatively important reason for releasing housing equity, participants usually referred to helping the younger generation. When one is still relatively young (50's and 60's) children will follow education elsewhere and later aim to buy their first dwelling. This is a life stage in which they can really use some financial help from their parents. The release of housing equity by the parents can be a good way to finance such help.

Leisure or holidays does not rank very high, but a couple of respondents did fancy using some housing equity to spend on the better things in life. However, no one ranked this high.

Other purposes: A spending purpose that was mentioned here is "re-investment in another dwelling." A of couple participants also mentioned gifts to children. This more or less falls into the category "Help family members."

Table 2 Reasons for utilising home equity (1 = highest proportion, 5 = lowest proportion)

Options for utilising home equity	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Day to day expenditure such as grocery, utility bills	1		1		4
Medical and care expenses	2	3		2	
Help family members	2	3	2		
Leisure / holidays (vacation, camper, second home etc.)			4	2	1
Any other purpose	2	1		3	1

2.15.1.2 What should a good ERS-product look like?

The moderator explains that the Netherlands does not have much experience with the ERS products. Until now, people that want to extract equity from their dwelling with the help of a financial product tend to take out a normal mortgage. One then needs to have sufficient income to pay for the interest. This is not self-evident because after the financial crisis the loan-to-income norms have become stricter in the Netherlands. Therefore, taking out a new mortgage is a strategy that fits people who have a good pension, but it does not tackle the problems for those that have an inadequate pension. The moderator explains that the market for ERS in the UK is much more developed than the market for ERS in the Netherlands. In the UK, the so-called Equity Release Council has formulated a number of characteristics for a 'good' ERS product. The participants were asked to rank the importance of these characteristics on a scale from 1 to 4 (1= extremely important, 4 = not important at all). Table 3 provides the results of this ranking exercise.

Table 3 Which rank do participants give to the various characteristics of a "good ERS product" as defined by the Equity Release Council in the UK?

Characteristics good ERS product	Rank 1	Rank 2	Rank 3	Rank 4	Average
a) Fixed interest rate	2	3		1	1,7
b) Variable but capped rate of interest	5	1	1		1,4
c) Right to tenure	6	1			1,1
d) No negative equity guarantee	6			1	1,4
e) To be able to choose your own solicitor*	x	x	x	x	
f) Fair and simple illustration of your plan	Not asked separately, covered by the aspects that follow				
g) Information of all costs involved and who will bear them	5		1		1,3
h) Tax implications	4	2	1		1,6
i) Early repayment options	1	2	2	1	2,5
j) Flexibility to move homes	6	1			1,1
Product is tailored to personal situation customer (added)	3	2	1		1,7

*Excluded: in Dutch context there is always freedom to choose an estate agent and solicitor (notary).

Table 3 shows that the participants attach a high importance to almost all elements of security and transparency that are provided by the norms of the Equity Release Council.

A discussion starts on how these norms should be implemented. A participant asks: *"How is this regulated, again?".* The moderator explains that in the UK example it is self-regulation by the sector. He says that a point of discussion here might also be what our attitudes are about self-regulation or government regulation. Moderator: *would self-regulation be good*? One of the participants answers: *"In my view this would be a very bad case. You see in all kinds of public tasks that it does not go well when the market regulates itself. In fact, it is the butcher testing his own meat (Dutch proverb)."* Moderator: *if consumer organisations are involved, would self-regulation be different?* The opinions on this topic differ and range from *"No, it will not make it better" to "It depends on the interests of the consumer organisation" to "I think consumer organisations are important because the legislator doesn't take care of it.".*

One participant thinks that independent consumer organisations need to get a role and that they need to protect the interests of the consumer. However, it is the government that should design the legislation.

Another participant is against "*all this supervision*" and tries to distinguish between providers that lend money (loan model) and those that take a share in the dwelling (sale model). "*When you take out a loan you are always dependent on the bank, the bank is the stronger party. If you take out a loan, you do not know how much you have to pay on interest, for how long you have to take out the loan."* The sale model makes that you share the responsibilities. The provider, *"a silent partner"* might even have

some interest in maintenance. Shared home ownership implies shared responsibilities and may lead to more security for the consumer than a mortgage construction: *"The only interest the mortgage holder has is to collect all the payments and in case they don't they kick you out".* The other participants seem to agree with this distinction. The general opinion is that it is better to do business with someone who has a share in the dwelling rather than with a bank that *"just sits back and collects the money"* at the end of the day.

There is also a suggestion that insurers might be well equipped to handle the sale model. They know quite well how the survival rates are for people at a certain age and can provide money accordingly. But they should then have a 'share' within the dwelling. Also mentioned in this respect: *"Both partners of a couple need to be sure to be able to continue living in the dwelling"*.

The costs of the loan model: reasonable interest rates

The moderator continues with the question how much interest people would want to pay for an equity release product. He states that the interest rates on ERS are usually somewhat higher than ordinary mortgage interest rates because of the higher risks involved. "*How much would you want to pay extra?".* Participant: *"Why would there an additional interest premium anyway?"* The moderator explains that this happens often with normal mortgages as well, to compensate for risks. *"I can imagine half a percent?"* Participant: *"Not for me! Way too much." "Against half a percent extra it should be a fixed rate!"*

Tax relief on the interest paid?

The moderator explains that there is a tax relief on mortgage interest in the Netherlands. He asks whether it would be a good idea to extend this tax relief to ERS in order to make these products more attractive. Among the participants, there seems to be wide consensus that this should not be done. Providing tax relief is the same as providing government subsidies and the government should only subsidize in case of great societal relevance. This is not the case here. ERS is regarded as something that is used for a variety of purposes (see also table 2) and there is no need for the government to actively support this.

2.15.1.3 Raising trust and awareness

There has been a vivid discussion about the role of the government when it comes to raising trust and awareness. Moderator: *"What do you think of the different roles of the government. From the purpose of financial stability, they regulate markets with rather strict norms, but as a result, it becomes difficult for older people to release housing equity"*. This statement seems to spark some interest among the participants. Moderator: *"What kind of awareness should we promote"*? As one of the participants replies: "*The last ones should be all these financial specialists. I can already see dollar signs in their eyes*." Someone else says that information campaigns by the government need to be justified. *"It is senseless to just say that ERS is now available."* There is some agreement that it can be justified when it is made clear that ERS reduces costs for old age care provisions and/or being able to keep on living in the same dwelling. *"It shouldn't be a campaign that promotes ERS to just go out there and buy a nice camper for long vacations."* The government should only promote spending purposes of ERS that are societally relevant. For the all the other spending purpose of ERS, the market parties will design their own campaigns and government interventions are not needed.

One of the participants mentions that the complexity of ERS may be a bottle neck in any information campaign. If ERS are more standardised, it is also easier to compare and gather the proper information. The moderator says that a possible standardization of ERS is indeed an important issue for the stakeholders, both from the supply and the consumer protection side. The Dutch consumer organisations say that the ERS market is currently too small, and the available products are too complex, to be able to make

good comparisons. This is problematic because when there is little information and there is little trust in financial providers, which clearly is the case at the moment, the market will not develop.

2.15.1.4 Alternative ERS-solutions

After the break, the discussion focused on the various alternative ERS solutions that were developed within in the framework of the research project. First the different models were introduced and explained further, after which we had an open discussion on the pros and cons of each model. At the end of the discussion, we asked the participants to fill in a ranking card with regard to each model.

Lifetime lease

The moderator explains that this model has been developed in the UK context in which only a limited share of the population is covered by mandatory employment related pensions. The idea is that households pay a relatively low rent because of the long term tenure arrangement. Next to the rent they pay, they save money in a pension fund which is released when they retire. A first remark by one of the participants: *"I see a problem with this, because it departs from the idea that you live in one dwelling for your entire life and that is not the practice here. At least, it happens much less than previously."* The participants agree that you should be able to move your 'lifetime lease contract' from one house to another. Another participant adds *"I think this is a model that does not fit within the Netherlands."* The moderator explains that this model was developed in a context that is fundamentally different from the Netherlands, namely the UK. In this country, people have to organize their own pension provision (limited mandatory pensions) and many people see home ownership (with subsequent release of housing equity after the retirement age) as part of this private pension provision. In such a system, tenants have a disadvantaged position because they don't have housing equity that can be released. Engaging in the life time lease model is an alternative way of pension provision for this group. In the Netherlands, this model could be attractive for independent professionals (ZZP'ers) who often lack a good pension provision and who may find it difficult to enter the home ownership sector. Table 4 shows how the participants have rated some important characteristics of the life time lease model. The table makes clear that there are mixed opinions towards this model.

Table 4 Rating of the life time lease model on a number of aspects

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**1**	**2**	**3**	**4**	**5**
1	A lifetime lease would be attractive to young people on low incomes that can't manage (or don't want to manage) a mortgage.	2			5	
2	The government would be keen (enthusiastic) to subsidize this kind of arrangement.	2	1	3	1	
3	It does not matter that the customer does not share in house price appreciation.	2	3	1	1	

Integrating a traditional mortgage and lifetime mortgage into one product

The moderator explains this product. He mentions that there is already tax relief on paid mortgage interest in the Netherlands. However, in many other countries, such tax relief is not available (anymore). In this model, the tax relief would flow into a pension fund, rather than being transferred back to the individual home owner. After retirement, the home owner receives pension payments from releasing housing equity (loan model), as well as from the pension fund that has been filled with the money from the tax relief. This model could be attractive for people who do not have a good pension provision, such as the self-employed or those who have lived abroad. One of the participants kicks off the discussion by stating: *"I think introducing this, would be politically sensitive, because in the Netherlands, the authorities want to reduce the generosity of the tax relief".* Another participant remarks: *"I think it can be considered to further develop this. Buying a house and having a form of pension plan would be good for those that have less coverage, as a result of income variations, spells of self-employment etc.* Other participants agree: *In the modern context people do not work for 25 years for the same employer."*

Another participant: "I wonder whether younger people will use such a product. They want/need that tax relief money immediately." For the Dutch context, this comment is indeed very relevant. Many young people take into account the tax relief when establishing the maximum price they want to pay for a house. Participant: *"Who would manage that fund if I may ask?"* Moderator: *"I suppose a private pension fund?"* Participant: *"Bad plan, bad plan."* All participants: *"Hahaha."* Participant: *"But I think you need to disconnect this pension fund from the mortgage product. Otherwise, the bank may get my pension holding in case I default."*

One participant says that in Australia the mortgage serves as a sort of credit line. The mortgage deed remains on the house, even after you have fully repaid. The advantage is that it is easy to withdraw equity from the house by borrowing a new amount of

money[7]. Others also refer to the recent past, before the Dutch government put restrictions on the mortgage products (around 2012). At that point there were products in the market where you would pay interest, but you could choose to not repay for some time; for example in case of income decline or unemployment. *"They called this a credit mortgage"* (Krediethypotheek). Table 5 shows how the participants have rated some important characteristics of this model. Also here, the opinions are clearly mixed.

Table 5 Rating of the model *Integrating a traditional mortgage and lifetime mortgage into one product* on two important aspects

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**1**	**2**	**3**	**4**	**5**
1	This product will be attractive to self-employed households.		2		3	2
2	I think that mortgages and pensions need to be separated.	1	3	1	1	1

Shared ownership of dwelling complex by inhabitants (tenants) and an investment fund

The moderator explains this model. The target customers for this product are those who just have enough money to pay for the use of their homes, but are unable to own them. The customer can invest in a close-ended real estate fund (a financial institution) to accumulate the capital for home ownership. The fund rents out primarily to shareholders and provides with flexible rights to residents Such rights could gradually develop into ownership rights. The main benefits of such type of product are that the customer could eventually own the same home, which is rented out initially and can also partially benefit from house price inflation without being a full home owner. After retirement, households can release housing equity by selling back part of their share in the dwelling to the investment fund. One of the participant reacts: *"The weakness of this model is in the valuation of the shares. We have seen in the past that rental dwellings were sold at too high prices."* All participants say that there needs to be an independent organisation that values the dwelling, should this model be able to work properly. The participants do not have much trust in valuators hired by the seller (in this case the investment fund). The moderator says that for sales of rental dwellings under shared equity schemes, there is a formal dispute committee. Such a committee could also play a role in this model. The participants agree that this may be an adequate way to guarantee a good price.

Moderator: *"What would such an investment fund look like? A commercial company such as an insurer or a non-profit?"* Participant: *"I think it does not really matter."* Moderator: *"Well it needs to be an organisation with enough financial liquidity so that the residents can easily sell (or buy back) their shares. In case it is a closed cooperative, there may not be enough buyers in case you want to sell (one of your) shares."* The participants agree with this, the flexibility should be granted.

[7] In fact one practice in the Netherlands was/is to register the mortgage deed for a higher amount than the actual loan. This makes for easy equity withdrawal, without the administration of a drawing up new mortgage deed at a solicitor/notary.

Although there is no long discussion, the participants like the flexibility of this model, illustrated by the possibility to buy and sell shares anytime one likes. There are some reservations about the practical aspects, such as the aforementioned valuations. *"So far this is the best one, unless you now come up with another, even better scheme."* All: *"Hahahahaha."* One participant does not like the idea. "*You need to do this individually. There is always someone who wants to make some money. It is too much organisation*."

A researcher of TU Delft who listens in mentions that there might be another catch. Here, it seems as if the designers of the model think about residents using savings, but it is also possible to design a model where people buy a large share of the dwelling and need a loan. This may be hard to finance at a bank, because the property is owned by the cooperative, while the mortgage loan is granted to an individual. We know that cooperatives often struggle with this. Dutch banks have little experience with regard to this topic. Table 6 shows how the participants have rated some important characteristics of this model. As mentioned before, the participants have a relatively positive stance towards this alternative.

Table 6 Rating of the model *Shared ownership of dwelling complex by inhabitants (tenants) and an investment fund* on three important aspects

		Disagree		Neither	Agree	
		Strongly	Moderately		Moderately	Strongly
	Question	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
1	This product would be attractive to those on low incomes.	1	1		5	
2	I like the idea of owning a share of a real estate fund instead of a house.	2	1		4	
3	This is a good way to save for retirement.	1		1	3	2

Switching between repayment of mortgage and investment in pension fund

Here we adapted the model and questions of the interview guide to the Dutch context. We presented a flexible form where people can choose whether they do monthly payments as mortgage repayments or whether they invest it in their pension fund. Thus, flexibility is the key word and consumers are free to switch from loan repayments to pension fund investment and vice versa. This model is somewhat complicated because of the current Dutch fiscal system. It is now only possible to get tax relief on mortgage interest payments when taking out a repayment mortgage (annuity or linear). In the past many people also took out interest only mortgages, often combined with an investment vehicle. The model discussed here seems to connect better to these old times.

After the presentation of the model, the participants stay somewhat quiet. They seem to think that repayment of the mortgage loan should be the norm. Participant: *"Why make such a problem about this. We have a very good pension system that we should*

maintain." Another participant*: it may help younger people in the future, because the state pensions may be reduced."* Another participant: *"In case I had always been self-employed, I would be interested, but when I was employed, it never occurred to me."*

Participant: *"All these products are very much based on a private pension system, while we have a collective form over here. In case you make it more private, possibly the bank (mortgage lender) can become the manager of the private pension fund as well. Then, same risk sharing takes place."*

Participant: *"With an individual pension asset (life insurances etc.), the money can be transferred to your heirs. If you are in a collective, you 'lose it' when you die prematurely."*

Table 7 shows how the participants have rated some important characteristics of this model. Again, opinions turn out to be mixed.

Table 7 Rating of the model *Switching between repayment of mortgage and investment in pension fund* on three important aspects

		Disagree		**Neither**	**Agree**	
		Strongly	**Moderately**		**Moderately**	**Strongly**
	Question	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
1	This product would be attractive to young people on relatively low incomes.	2	1	1	3	
2	I like the idea of flexibility between repayment and flexibility.		1	2	2	2
3	Dwellings and pensions should be treated in the same way fiscally.	1	1	1	2	2

2.16 UK: Focus Group 1 (July, 2016)

2.16.1 **Introduction**

There is a growing concern about future retirement provisions in Europe due to the ageing population. Policymakers are concerned about the extent of state pension and if it will be enough to support decent living standards in retirement. Moreover, many governments are not in a position to pay state pensions as comfortably as they used to prior to the financial crisis. In the UK however, state pensions are generous at present but the rapid increase in pension legislation is reflective of a growing concern about the sustainability of existing pension systems. The Public Service Pensions Act 2013 was designed to create fairer career average public service pension schemes to replace the largest existing final salary schemes. While the shift from defined benefit schemes to defined contribution is supposed to strengthen pension systems for future retirees, some researchers such as Gordon et al. (2012) have expressed their doubts on the sustainability of the latter. Recent reforms to pensions in the UK have led to the introduction of auto-enrolment of employees into occupational schemes thereby increasing the numbers of those saving for retirement. Additionally, the government has been promoting private pension schemes and encouraging individuals to save for retirement. These measures reflect the State's apprehensions with respect to the future retirement provisions in the UK. Within that framework, there is an ongoing debate on the use of housing assets to support retirement income in the UK as well as across Europe. This is essentially the background of our research and we aim to understand if liquidating housing assets can be a way to supplement retirement income going forward. This is a European Commission project (VP/2014/014) and is in collaboration with a number of different universities from different parts of Europe. These universities are from Republic of Ireland, Netherlands, Hungary, Italy and Germany. We are representing the UK.

As part of this research, we aim to study individual's attitudes to home ownership and using homes for financial purposes. We arranged a focus group session to gather data in this regard. We asked the participants of the focus group about their attitudes to owning homes, their intentions to bequeath and their views on using their house financially. We also asked if they considered releasing housing equity worthwhile and would they have done it themselves or via a financial product such as an equity release scheme. A detailed description of the data and the key findings are discussed in the following sections.

2.16.2 **Methodology**

We used the premises of AgeNI in Belfast for conducting the focus group session. The individuals who participated in the session are in the AgeNI forum. The meeting lasted for two and a half hours. The session was divided into three segments, each of which were conducted by separate moderators. Each moderator introduced the topic covered in the segment before asking the participants questions related to the topic. None of the moderators shared their personal views on the topic to avoid any biased response. We followed the template provided by TU Delft throughout the session.

2.16.3 **Data**

Table 1 provides a description of the sample. It includes seven participants within the age bracket of 63 to 75 years. They are all residents of Belfast. Five out of the seven individuals have retired while the rest are still working either on zero hour's contract or as full time employees. One of the participants lives in rented dwelling and the others own their homes. The sample includes individuals with a varied range of household income. Three respondents reported their household income as being above or about average income, two of them stated it as high and another two individuals informed

that their earnings were below average. None of them is in debt and a majority of them live in detached or semi-detached dwellings.

The participants were interested in this topic firstly because they wanted more information on equity release products to understand them better. Secondly, they were keen on understanding the use of equity release products in the context of investments and tax rebates. Finally, some of them were interested because they wanted to live comfortably without having to move out of their residence and neighbourhood.

Table 1: Characteristics of the Group

Age	Homeowners	Type of Dwelling	Household Type	Outstanding mortgage	Retired/Working	Household Income
72	Yes	Detached or semi-detached dwelling	One person	0	Working on zero hours contract	Above average (higher income)
70	Yes	Detached or semi-detached dwelling	One person	0	Retired	About average
64	Yes	Detached or semi-detached dwelling	One person	0	Retired	About average
70	Yes	Apartment	One person	0	Retired	Above average (higher income)
63	Yes	Terraced dwelling	Couple with children that all live elsewhere	0	Retired	About average
75	No	Terraced dwelling	One person	0	Retired	Below average
67	Yes	Apartment	One person	0	Mental health professional	Below average

2.16.4 **Findings:**

What are people's attitudes to homes and home ownership? Some of you live in rental accommodation, while some of you own your homes. Why did you decide to buy a home as opposed to renting it?

By analysing each participant's response, it seems that owning a home brings a sense of security. There is also an emotional reason attached to it in the sense that owning the house gives them the freedom to do whatever they wanted to do with it. Some of them bought their homes for investment purposes.

"I bought my home when I was young and it seemed be the thing to do to have security. Now that I have grown older, I am not sure that it really was the right thing. At this stage in my life, it's not really worthwhile owning home but I don't think I could ever spend that amount of money."

"For me owning a home is not only just security aspect of it but there is an emotional thing about owning your own home. Just do whatever you want to do with it."

"I bought my home in the late 80's. The mortgage was cheaper than the house. It was purely financial reason."

However, now that they have grown older and their children have moved out of the house, many of them do not feel the need to own the house anymore. Yet they did not seem comfortable by the idea of downsizing or moving to a rental accommodation. This is primarily because of their emotional attachment to the house that they have been living in. Additionally, location of their residence and having good neighbours was vital for most of them. It appears that they are keen on living in their current dwellings because the neighbourhood, they have established good contacts and there is a sense of community and belongingness for them.

Now, all our children have left and we have a six-bedroom house with my wife and me in it. People suggested downsizing but I could not do it. I am used to the house. It has seen a family growing up."

"If you become very attached to your home and you own it then I think it's much more difficult to leave it. So, that's one of the reasons why I am in favour of people remaining where they want to be."

"I think community is very important. I think it is very important that you have that security if you bought the house and that you can remain there. You made friends or next door neighbours or people across the fields."

On the contrary, one of the participants was flexible in their views on location of the residence.

"I think I don't see myself located in one place."

When you decided to buy your own home, how did you finance that? Did you have a down payment or mainly mortgaged? You talked about other properties, why did you decide to buy other properties. Was it a financial investment or was there some other reason?

There was a mixed response to this question. Three participants mentioned that they purchased their homes with the help of bank, parents and other family members. One participant inherited their family's real estate business. They own a couple of properties mainly for investment reasons.

To what degree people rely on different sources of retirement income as mentioned in Table 2?

The first column of Table 2 presents various sources of income in retirement. We asked the participants to identify the ones they were receiving from this list and rank them in order of their importance. The purpose of this exercise was to understand how prominent housing was among different sources of income.

Table 2: Source of Retirement Income

Source of Retirement Income	Count of Participants	Rank 1	Rank 2	Rank 3	Rank 4
State Pension	6	2	3	1	0
Occupational Pension	4	3	1	0	0
Private Pension Insurance	3	2	0	1	0
Housing (the house you live in)	0	0	0	0	0
Family	0	0	0	0	0

Other Properties (rental income)	1	0	1	0	0
Social Benefits	3	0	1	2	0
Other	3	1	0	0	2

Note: Occupational pension appears to be the most important source of income in retirement for this group of individuals. Income from housing and family support seems least important.

The second column of Table 2 records the number of participants receiving each form of income. Ranks 1 to 4 highlight the level of importance of these various sources. Rank 1 signifies the most important form of income while rank 4 indicates the one that is least important. Six out of seven participants receive state pension, four of them get income from an occupational scheme while only three individuals have a private pension insurance. Even though a majority of the sample receives state pension, it is not a significant source of retirement income for most of them. It is evident from Table 2 that income from an occupational pension is important for most of them who receive it. Private pension also looks important and so do rental and social benefits to a degree. Therefore, this suggests that state pension is important but it is not a significant source of income for many people. They are more dependent on alternative sources. Nevertheless, liquidating housing assets does not appear as a source of retirement income for this group of individuals.

In terms of your retirement income, how does it compare to your income before retirement? Is it the same level or was there a big drop?

Retirement income for most of these participants is half of their regular employee earnings. Some of them mentioned that their consumption has declined since they retired. They no longer have to pay for their pension funds, do not need to spend money on daily commuting or maintain a similar lifestyle.

"*I would say my income dropped more or less by half, but in saying that, I don't have the same needs. You don't have to pay to your pension fund or investments. You are not going out to work every day, you don't have to have that level of spending. So I don't spend the same amount of money.* "

Despite their reduced consumption needs, it seems that they are cautious in their spending. For instance, it was said that - "*I am careful when I use the car, for petrol. Bus pass, free travel! So I just work everything out and I don't go out a lot. It is difficult on pensions!*"

"*I don't run a car, I don't do much entertaining as I would like to do, I never have holidays, can't pay for it.*"

This indicates that some of these individuals struggle to maintain their consumption spending and it would be beneficial for them to have additional income support.

How do you expect your retirement to develop going forward? Will you have the same level of retirement income indefinitely? Alternatively, will it drop off over time?

We find that all of these individuals expect their retirement incomes to reduce in future. The discussion around this question indicates that housing is viewed as a medium to pay for long-term care when the need arises. It seems that they are saving their housing assets to manage the anticipated medical expenses and their retirement home expenses.

"I am trying to plan for a situation where the State would take my home and mover me to a care home. I am anticipating that we will have to pay for our own care in future. So I think that's really where your house and all the different bits of your portfolio come in so that you can manage what people are going to do to you."

What about family? Does your family contribute to your retirement income?

Five out of seven individuals in the sample have children who are educated and settled. It looks like most of them live on their own and do not receive financial assistance from their families. Some of them do not want their families to contribute while others indicated that they would appreciate additional support.

"*Although they have good jobs but I would not want my children to contribute. On principle, I think they need every penny they have, especially with respect to the insecurity and turbulence in the job market these days. There is a sense of dignity that I want to retain to the day I die and I want to retain that life long as a person."*

"I put 4 children through university and paid £120000 towards it. I am thinking, now we are retired, and I do not expect them to return the £30000 we spent on each of them but there is a bit of thoughtlessness in the fact that they took it for granted. We would appreciate if they contribute. "

Attitudes to forms of housing equity withdrawal (vignette)

The participants were presented with a case study to gather information on their attitudes to forms of housing equity withdrawal. We asked them to act as financial advisers to a retired couple who are roughly about 70 years of age. The case study is as follows:

> An older retired couple (around age 70) without children lives in a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners of the house (they have already paid off the mortgage). The man as part of this couple is having health problems. His health insurance partially covers the health care expenses. The retirement income of the household is insufficient to meet additional expenses. The couple is thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following four options:
>
> - Sell the house and move to a rental dwelling;
> - Sell the house and move to a smaller home ownership dwelling;
> - Sell the house and rent it back (sale- and lease-back);
> - Stay in the house and use a financial product to extract the housing equity.

We asked the participants to rank these options from 1-4 as financial advisers to the couple in this case study. Table 3 presents the number of individuals who ranked the first option as their first advice and so one. Three out of seven individuals mentioned that their first advice to this couple would be sell the house and move to a smaller house. Another three individuals would have advised the couple to enter into an equity release product in the first instance. The participants were not keen on advising sale and lease-back option.

Table 3: Options and their Rank

Options	Rank 1	Rank 2	Rank 3	Rank 4
Sell the house and move to a rental dwelling	0	5	0	2
Sell the house and move to a smaller home ownership dwelling	3	1	3	0
Sell the house and rent it back (sale- and lease-back)	1	2	2	2

Stay in the house and use a financial product to extract the housing equity	3	0	1	3

Those who chose to advise equity release products expressed their desire to remain in the same house indefinitely. Unlike sale and lease-back agreements, equity release schemes allow customers to live in the same house until they die. Again, the importance of living in the neighbourhood and emotional attachment to the house was highlighted here.

"*I chose because I wanted to remain where I was. Of course the third one gives you the option to sell the house and stay and all of that but then I actually will have a bit more control in this.*"

"*I think there is an emotional quotient to it because some people could be living in a house that they are living in for 20-30 years. And the whole neighbourhood is changed?*"

On the contrary, three participants disapproved of the use of equity release schemes. According to their understanding, purchasing an equity release product is similar to going back to the situation when they were paying somebody to live in their house. They interpret equity release schemes as a traditional mortgage on the house, in which they will have to pay an interest on the amount borrowed or some form of monthly instalments.

"*With equity release schemes you are actually going back to a situation when you are paying somebody to live in your own house again. It does seem attractive, but you are really going back to the start again whenever you were in your 30's*."

There was a mixed opinion on whether or not they would change their rankings if they faced a situation similar to the couple in the case study. The rationality of these decisions depends on the situation at the given time. Half of the sample were unsure about what they would do in the given conditions. Nevertheless, most of them were not keen on selling their house.

"*Whenever you reach a certain age, there is both emotional and practical aspect. A 10-minute walk brings me to a Sainsbury and the country is five minutes away. You know what more do I want! As an older person I am central enough but far enough*."

Attitudes to Bequest and Equity Release Products

Next, we asked the participants about their intentions of leaving an inheritance and if it was important for them to do so. The discussion gives an impression that it was not very important for them to bequeath. They would like to leave an inheritance for their children, families and various charities but it is not a priority for them. Further, we could not establish a link between the absence of housing equity withdrawal and bequest motives. A majority of these individuals were in favour of liquidating their house if there was a need for it. This was regardless of the fact that releasing housing equity will reduce the inheritance amount.

"*For me, when you are older, it is the time to look after yourself. You have already educated your children. It is a time to concentrate on yourself*."

"*It is only a house at the end of the day so I would be quite happy to sell and take the money out of it in future. I would maybe rent something*. "

Yet, they were worried about inheritance tax. Most of them conveyed that they would like to leave their house for their children but at the same time did not want to burden them with huge inheritance tax liabilities.

Do you know about equity release products? What are the current products available in the market at present?

The participants had limited knowledge about equity release products. They showed interest in knowing about the features of the product, enquired about the market in the UK and in Europe and wanted to know if there was a growing trend in the customer base and market share. Additionally, they were interested in knowing the costs involved in the process of taking out equity release schemes.

In the process of discussing this question, three individuals mentioned that, housing is the most important asset in their portfolio. Further, all of them anticipate that they will be living longer than their predecessors will. In addition to that, they all seemed reasonably aware of the economy and growing economic uncertainties. Therefore, many of them were in favour of using their homes as precautionary savings instead of taking out equity release schemes.

"*If you did have an equity release product and you got your lump sum a £100000, and the next year, you fell and hurt both your legs and because of the ageing that will create massive problems for you, if you have spent it all*."

There are many providers involved in the equity release market such as banks, insurance companies and commercial companies and so on. Just looking at the list of providers, which of these you think are the most trustworthy and the least in relation to these products?

Table 4: List of Equity Release Products Providers

Provider	Grade
Banks	1
Commercial Companies	1
Insurance Companies	1
Occupational Pension Funds	0
Government	0

Four out of seven individuals responded to this question. One of them said they would prefer going to their bank as they have good relations with them and there are no trust issues. Another individual mentioned that they would prefer going to a commercial or an insurance company. This is because equity release contracts from such companies are less likely to change once issued. Hence, the chances of misconduct on behalf of the provider is low.

"*Commercial and insurance companies perhaps don't go below their format and it doesn't really change much once you enter the contract. So, the product would be more stable over time. They will not change the rules and you would probably be able to set up the agreement, as you liked. It does not fluctuate as much as the banks.*"

One participant mentioned that they would not go to the government or the bank for purchasing the product. They seemed sceptical of these institutions. The rest of the participants did not contribute to the discussion around this question.

Conclusion

By communicating with this group of individuals, we think that the traditional views on homeownership and significance of homes for older individuals are changing. The group in general bought their homes when they were younger, but since most of them are living on their own, they do not need to own the house anymore. At the same time, it is vital for them to live in the same house until they die. This is not completely because of emotional attachment to the house but also due to the location of their residence and their neighbourhood. There was a general message from this focus group session that security and stability matters. This is why they would prefer to live with what they have and where they are. This is not surprising. However, their attitude to bequeathing was

unexpected. Previous studies such as Fisher et al. (2007), Ameriks et al. (2011), Costa-Font et al. (2010) and Jones et al. (2012) suggest the bequest motive as one of the biggest impediments to equity release schemes. Our analysis suggests otherwise. Our other significant finding is that tax implications are important. For many participants in this focus group inheritance tax was a concern. They did not want to burden their children with huge tax liabilities. Lastly, we find that for a majority of the individuals in this group, their house is a buffer as a form of precautionary savings. This is why they would not prefer purchasing equity release products.

2.17 UK: Focus Group 2 (December, 2016)

2.17.1 **Introduction**

There is a growing concern about future retirement provisions in Europe due to the ageing population. Policymakers are concerned about the extent of state pension and if it will be enough to support decent living standards in retirement. Moreover, many governments are not in a position to pay state pensions as comfortably as they used to prior to the financial crisis. In the UK however, state pensions are generous at present but the rapid increase in pension legislation is reflective of a growing concern about the sustainability of existing pension systems. The Public Service Pensions Act 2013 was designed to create fairer career average public service pension schemes to replace the largest existing final salary schemes. While the shift from defined benefit schemes to defined contribution is supposed to strengthen pension systems for future retirees, some researchers such as Gordon et al. (2012) have expressed their doubts on the sustainability of the latter. Recent reforms to pensions in the UK have led to the introduction of auto-enrolment of employees into occupational schemes thereby increasing the numbers of those saving for retirement. Additionally, the government has been promoting private pension schemes and encouraging individuals to save for retirement. These measures reflect the State's apprehensions with respect to future retirement provisions in the UK. Within that framework, there is an ongoing debate on the use of housing assets to support retirement income in the UK as well as across Europe. Our research focuses on this notion of using one's home for retirement funding. Where does housing sit in the entire retirement package? Is liquidating of housing assets a way to supplement retirement consumption going forward?

Our research fits into a broader research initiative by the European Commission on "Promoting the contribution of private savings to pension adequacy" (VP/2014/014) and is in collaboration with a number of different universities from different parts of Europe. These universities are from Republic of Ireland, Netherlands, Hungary, Italy and Germany. We are representing the UK.

One of the objectives of this study is to analyse individual's attitudes to home ownership and using homes for financial purposes. Focus group studies seem an appropriate way of conducting attitudinal based analysis. We have conducted two focus group sessions so far. In each of these sessions, we asked the participants about their attitudes to owning homes, their intentions to bequeath and their views on using their house financially. We also asked if they considered releasing housing equity worthwhile and would they have done it themselves or via a financial product such as an equity release scheme. A detailed description of the data and the key findings from the second focus group are discussed in the following sections.

2.17.2 **Methodology**

We organised the second focus group in liaison with Engage with Age, which is a community development organisation in Belfast. The individuals who participated in the session are involved in Engage with Age forums. The meeting was conducted at the premises of Queen's University Belfast and it lasted for three hours. The session took place in two segments, which were conducted by separate moderators. The moderators introduced the topic at the start of the session and asked questions related to it. None of the moderators shared their personal views on the topic to avoid any biased responses. At the start of the meeting, we informed the participants that the purpose of this focus group was to support our independent research and there were no commercial gains involved. We followed the same template and script as we did for the first focus group.

2.17.3 **Data**

The sample consists of six individuals from Belfast within the age bracket of 51-90 years. This is a mixed group of retired and working individuals with most of them living in their own homes. Two out of six participants live in rented dwellings. Most of these participants live on their own with the exception of two individuals. Financially, the group seems relatively stable. Four participants reported their household income to be above average whereas two of them reported their income was below average. The older members of the group do not have outstanding mortgages. An important aspect of this data is that it includes an individual who has used an equity release product before, which gives us access to first-hand experiences of an existing customer. Therefore, this focus group session was an opportunity for us to talk to both existing and potential customers.

Table 1: Characteristics of the Group

Age	Homeowners	Type of Dwelling	Household Type	Outstanding mortgage (£)	Retired/ Working	Household Income
51	Yes	Detached or semi-detached dwelling	Couple with at least one child living at home	35000	Working	About average
90	Yes	Detached or semi-detached dwelling	One parent family with children that all live elsewhere	0	Retired	Above average (higher income)
80	Yes	Terraced dwelling	One person	0	Retired	Below average (lower income)
58	No	Detached or semi-detached dwelling	One person	0	Working	About average
74	No	Listed detached dwelling	Couple with at least one child living at home	0	Working	About average
74	Yes	Detached or semi-detached dwelling	Couple with children that all live elsewhere	0	Retired	Below average (lower income)

2.17.4 **Discussion**

Could you explain why you think this topic is interesting and why did you decide to come here today?

The first segment of the session began with a general discussion on why people were interested in the topic of the focus group. They were interested in knowing more about equity release products. Some of the participants were present at the meeting to learn about the issues related to availability of state benefits with respect to the ageing population and to what extent housing can protect them in retirement. In general, the participants conveyed their lack of knowledge about the subject and mistrust in equity release products. However, for the person who has used equity release before, it was an opportunity to share their experience of the product. In particular, they raised concerns about the high interest rate that they were being charged.

What are people's attitudes to homes and home ownership? Some of you live in rental accommodation, while some of you own your homes. Why did you decide to buy a home as opposed to renting it? So, we just want to understand how people feel about home ownership versus rental.

This data contains individuals who are homeowners as well as those who live in rental accommodation. One homeowner believes that the desire to buy a house motivates people to find stable work, pay their mortgage on time, and leave something behind for their family. One participant expressed that their decision to buy their house was motivated by social factors, referring to the era when people in the UK started buying houses. There was a general opinion that owning their homes provided them with financial stability and a sense of security.

"Buying a house isn't an option for everyone, but I think it's an ideal aspiration to try and find steady work and to be able to pay your mortgage off on time and leaving it behind for your family. I mean using your home for financial purposes would be a last resort for me. Because you are undermining your financial security. What are you leaving on to your family?"

"Well, homeownership - you are putting money into your own financial benefit rather than in someone else's. It gives you that stability of tenure rather than renting, which could be insecure! The landlord can ask you to leave or could sell the house. Sometimes rented houses are not in a good condition."

However, one of them did mention that while on one hand homeownership provides security, on the other hand it is also a liability as it is expensive to maintain. Similarly, the participants who live in rented accommodation did not think owning a house provides security. They conveyed a negative perspective on owning a house and mentioned that instead of providing security, it becomes a burden for some people at times. Especially if they are spending a substantial amount of money on maintaining their homes or if they end up incurring a major business loss, which puts them at the risk of losing their homes.

"The house provides security but it is also expensive to maintain. The problem I get with the house now is with all trees outside, there are leaves coming out and the roof gets dirty. It gets slippery outside my door. I fell the other day! I have spent a lot of money on my house."

"I had my own business but I lost it. So, I thought I had my house to back me but I had to sell it off to make sure all my dues were cleared. It went away half the price. That was my pension scheme literally gone. This experience gave me a negative perspective on owning a house and I swore at that time I would never buy a house again. So, I am very cynical about everything to do with owning houses. My Granny used to be a property developer. Often, she would buy a house, fix it and sell it. There is a culture in our family of owning property. That was the whole aim of your life to own property. Something that you would have behind you. However, for my granny it did not pay her off in a positive way. The business got to a stage that she was spending so much in trying to keep the houses going that all that equity was going bit by bit. Just like her, I had to spend a lot of money on my last premises but I ended up with nothing. I am scared of taking out a second mortgage and so are other people. And if you do that there and something like equity release comes up, you think hang on I am handing part of my property to someone else so it puts on it even more risk."

The availability and affordability of houses in certain areas such as London came up in the discussion. It was highlighted that given the trend in house prices in mainland UK vis a vis the supply of houses, younger people may find renting as the only achievable option. However, renting is only possible with a steady stream of income.

"It is interesting just to look at the bigger picture in terms of thinking about the liability of owning a house, as a product for your financial security and just about the issues around affordability of housing. More and more people may find it I mean particularly

not so for Northern Ireland but places like London, parts of England where housing is not affordable for more and more people in good jobs, may find it it's just not feasible, having to move back into with their parents and stuff. It can be difficult to buy your own place but so is renting a place. It is also not affordable as well, unless you have a steady income and were with a couple, you know be able to pool your income. It is a funny situation now. I meet with people who agree with that, certainly for younger people. My kids are growing up and I am trying to get a feel of the housing market. It is going to be very difficult for them."

To what degree people rely on different sources of retirement income as mentioned in Table 2. We just want to get a feel for what peoples' sources of retirement income are. Are they through state pension, occupational pension or through some form of rental income coming from a property and so on?

We asked the participants to rank their sources of retirement income in order of their importance. We wanted to gauge if they were most dependent on state pension, occupational pensions, family support or income coming in from property. In particular, we were interested in understanding how prominent income from housing was among different sources of income. The individuals who have not retired yet responded based on what they have planned for their retirement and future expectations. A list of income sources and their order of importance (highest to lowest) are presented in Table 2.

Table 2: Source of Retirement Income

Source of Retirement Income	Count of Participants	Rank 1	Rank 2	Rank 3	Rank 4
State Pension	6	5	1	0	0
Occupational Pension	2	0	2	0	0
Private Pension Insurance	1	1	0	0	0
Housing (the house you live in)	0	0	0	0	0
Family	0	0	0	0	0
Other Properties (rental income)	1	0	0	1	0
Social Benefits	0	0	0	0	0
Other	0	0	0	0	0

Note: State pension appears to be the most important source of income for this group of individuals, which is followed by occupational pension. Private pension is important for one person. Income from other sources in particular housing is insignificant for this group.

All of the retired individuals receive a state pension and it is their primary source of income. For the working individuals, two of them reported that they anticipate state pension would be their main source of income whenever they retire. However, one self-employed individual mentioned that they were counting on private pensions to support retirement consumption. Occupational and private pensions are not as important as state pension but they appear to be relatively significant.

We came across some strong opinions on why the group thought investing in occupational and private pensions was risky. A majority of the participants raised the issue of private pensions being uncertain. Two of them mentioned that they have seen people investing in many occupational and other private pension schemes but they ended up getting unsatisfactory benefits. Especially, the amount of money received in those cases was low. However, state pension seems less risky to this group of individuals and is seen as a medium to receiving other state benefits.

"I attend a group, which has ex trade unionists, probably a lot of people who were civil servants and a wide range of people. They have been fighting for a minimum state pension, a liveable state pension, which I think at that time was £140 a minimum. And that's what I have based everything, my plans for the future. On the fact that I am aiming for that. So therefore, I don't want to be taking out pension schemes. I don't want to be taking out anything that might impair me getting that basic pension, which I am enrolled over there and a lot other people are doing the same thing."

"The way I look at it is I have seen people who have had several pensions and ended up getting hardly any benefits at all, because there is too much already coming in. However, if you get your state pension that will ooze up a lot of other and that is why I have taken this route. It could be a bad gamble but I would gamble."

There is also the issue of mistrust in pension schemes. There was a general feeling in the group that pension schemes lack assurance of benefits. They find it difficult to judge whether a pension scheme is good, whether they can trust the fund managers and whether they will receive a sufficient amount of money whenever they require it.

"How can I be guaranteed a good pension scheme? I started two schemes; the first one I stopped, it turned out it was not a good scheme. However, the second one I started too late and was a brilliant scheme and I should have had that from the very beginning but I was not aware of it. And I should have started a good pension scheme early enough. But how do we know if it is a good pension scheme?"

"A lot of older people are going to have a discussion about this, people are going to feel that they have saved, and when they are not going to get that money back they would feel they have been penalised for that (for saving), because they are not getting any help. "

Further, Table 2 indicates that the group is not dependent on other forms of housing income, especially housing equity. In fact, they dismissed the idea of using their home as a retirement asset. This is also the case for the person who has used equity release before as they mentioned it was a one-time affair but would not do it again mainly because of their adverse experience with the product.

"It was my husband's idea to release equity from the house. I wasn't terribly interested. We needed to do things to the house. It had gotten to a point that we needed an upgrade in the house; you know the doors need done, different windows, and the garden. But I would never do it again. The interest is massive and we never thought it would be like that."

What about family? Does your family contribute to your retirement income?

There was a low response to this question. One of the individuals remarked that they did not require monetary support from their family. Another person mentioned that it is unfair to expect one's children to fund retirement because they have their own priorities and families to support.

"My family are all comfortably off you know, except my third son, who has a very poorly paid job. So, I am inclined to help him out when he needs it. But my other three children are well provided for and whenever I do go they will be better provided for because I have very good savings and it is going to be divided 4 ways. So I never feel that I am in a situation where I need help from my children in any way."

"No, they all have their own families to think about and it is unfair to them."

2.17.4.1 Attitudes to different forms of housing equity withdrawal (vignette)

The group was presented with a case study to gather information on their attitudes to different forms of home equity release. They were asked to act as financial advisers to a retired couple of 70 years of age. The case study is as follows:

An older retired couple (around age 70) without children lives in a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners of the house (they have already paid off the mortgage). The man as part of this couple is having health problems. His health insurance partially covers the health care expenses. The retirement income of the household is insufficient to meet additional expenses. The couple is thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following four options:

- Sell the house and move to a rental dwelling;
- Sell the house and move to a smaller home ownership dwelling;
- Sell the house and rent it back (sale- and lease-back);
- Stay in the house and use a financial product to extract the housing equity.

We asked the participants to rank these options in order of what would have been their first advice to the couple, their second advice and so on. Table 3 presents the number of people who ranked the first option as their first advice to the couple in the case study and so on. Most of the individuals had different opinions on this topic and only a few participants agreed with each other during this discussion. Two out of six individuals mentioned that they would have advised the couple to move into a rental dwelling. Three people said they would have advised the couple to downsize in the first instance and another two spoke in favour of entering into a sale and lease back agreement. Only two individuals stated that they would have suggested purchasing an equity release product.

Table 3: Options and their Ranking

Options	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**
Sell the house and move to a rental dwelling	1	1	0	0
Sell the house and move to a smaller home ownership dwelling	2	1	0	0
Sell the house and rent it back (sale- and lease-back)	2	0	0	0
Stay in the house and use a financial product to extract the housing equity	1	1	0	0

The discussion commenced with problems around moving houses. Both moving into a rental accommodation and moving to a smaller home ownership dwelling involve disturbing one's environment and neighbourhood. One of the participants mentioned more than once that moving homes is a hassle for older people and seems stressful.

"Moving house at that age would be a terrible trauma. you don't want hassle whenever you are in your seventies or eighties. You don't want that."

One individual spoke about emotional attachment to one's own house. The individual highlighted how people get used to the house they have been living in for years, adjust to their neighbourhood and develop good connections with their neighbours. It seems these things matter for many older people. Another participant mentioned that as people get older, they are not very open to changes and tend to stick with what they have. We came across similar attitudes towards home in the previous focus group.

"I think it is an individual thing. I know people who have moved into sheltered accommodation or accommodation where somebody can keep them. These people are not able to look after themselves and they are quite happy with it. But for me to move, I wouldn't leave my house. I would not leave my house. I have got space, I have lived in it for over 40 years and I have told my children I am not leaving this house. And then one of my sons says but what happens if something goes wrong with you? I said that somebody can come in and keep an eye on me but I am not leaving this house because I like the house and I like the space and I am happy with the house. And to go somewhere else is not on. Not for me. So if I have to advise this couple I would tell them to go for the last 2 options, because if they like their home and they have lived into it all those years then what's like it. So, they are happy there and they are content and they are sheltered. You know they should stay where they are, I think."

"When you are downsizing, you don't know where you are moving to and as you get older you are more setting your ways where you were than starting to move to somewhere."

Nevertheless, a lot depends on the situation that the couple might be in, as was mentioned by the existing equity release customer. This person was in favour of selling the house and renting it back and taking out equity release. However, they suspect that these ways of releasing home equity could be useful only for people with no children.

"I think it would depend on the people and their situation, maybe someone with no family you know they would go ahead with sale and rent back or equity release would be grand for them."

It came up in the discussion that the choice of the method of withdrawing home equity would also depend on the existing market conditions of the area they live in. For instance, with respect to soaring house prices in London, homeowners from there might be willing to use their homes for financial purposes. However, for other parts of the UK such as Belfast, North East of England and North West of England, homeowners may not feel the same.

"My relatives were expecting to receive a £140 thousand. Now the market value of the houses in the area they live in are all in 40s and there is work to be done even to get that. So, it is all timing on what is the housing market is like at the time when you do it. I mean if home equity was released when it is at a peak then this wouldn't be such a bad decision, but you don't want to do something when your property is worth around maybe half or less of its value."

Furthermore, an individual expressed their views on how selling and renting back the house could be risky and equity release products safer, from a financial perspective. They raised concerns over the uncertainty of increasing rent and whether the couple would be able to afford that eventually. Equity release on the other hand may provide a steady stream of income. Another person in the group supported this argument of expensive lease contracts.

"Selling the house and renting it back, I suppose there is a danger in that if you are going to make a budget, you know how much rent can you pay back, but the rent can go up on the house. So you have to think if you will be able to afford that in a longer term whereas the equity release would be steady income."

"Number 3 is staying in the house and use a financial product to extract the housing equity and the fourth was sell and lease back, a lot of money would disappear on the lease back. It would be quite heavy, you are paying double the amount."

The couple's house is old and in urgent need of maintenance. They are considering using housing equity to pay for this.

Most people sounded in favour of advising the couple to release equity by a financial product like equity release scheme. In fact, the person who has used this product before

mentioned that they purchased the product because they needed money for maintenance of the house.

"We needed to do things to the house. It had just got to a point that we needed an upgrade in the house, you know the doors need done and different windows and the garden. So that was the idea of it because we wouldn't have the surplus to do it. My husband was made redundant many years ago, he worked at the docks and he was made redundant. So it was just more to help with the maintenance of the house and he thought it would be a good idea. And I suppose he knew at the time but it's just it seems to me the interest is very high now, over the years, the longer you live it will be more."

Another point raised in this discussion was on the value of the house when it requires maintenance. The individual believed if the house is evaluated at a low price, the couple may not receive full value of the house if they decide to sell it and rent back. This is an interesting observation as it adds another dimension to explaining why people consider their homes as a retirement asset.

"See you also have to consider the fact if they stay in the house they are going to have to live through the dirt and up of it being maintained. If you think about selling and renting the house, the evaluation at the point of sales is going to be very low. The money that you are going to get back, you are going to fix the house up. So will they get the increase in the value of the house, who will benefit there? The people who have leased it? So you have watch that a bit."

The couple have two adult children, one of them unemployed and in need of financial assistance.

We did not receive a proper response to this question, perhaps because it was difficult for some individuals with no children to relate to this situation. Only one person responded to this question with the opinion that they would have advised the couple to consult with the rest of the family for an alternate solution before giving up the home. They mentioned how reluctant they would have been to use their house had they been in a similar situation. It seems using the house in any sort of way is the last resort for this individual.

"Well you may not have the certain amount he is looking for in your savings so that means you may have to cash in on the property. No I would just tell him to go and get a loan. Unless the rest of the family could all come together and help him out. And in my situation, I think that would happen. I have one son who lives in London and has a badly paid job. He lives in a flat and he has lived there for years. I think if I needed that money I think I could go to my other three children and say I don't have enough money here but can you help out and I am sure they would do it."

The couple are healthy and would like to release housing equity to be able to buy a motor home.

The group unanimously agreed that they would have advised the couple to release home equity to buy a motor home. However, they were unsure which method of equity release they would have advised the couple to adopt. It came up in the discussion that motor homes have a limited life and could be hard to re-sell. Therefore, it could be risky to exchange a piece of property against something that is temporary in nature and has little resale value.

One of the participants mentioned that this scenario could be interpreted as a case where the couple does not require their house and they are willing to sell it. Therefore, the debate on choosing a way of releasing home equity mentioned in the above vignette seems irrelevant here. However, many in the group disagreed with this individual. It was mainly because the couple is old and they may require some form of insurance against future uncertainties. A house provides security and it could be used as a buffer.

Another point that came up in this discussion was about financial information. The existing equity release customer stated that the couple could use any of these equity release mechanisms as long as they understand the arrangement completely.

"Well I would say as long as they have looked into it and they understand it is going to be so much on top and things like that, I would say yes. As long as they know what they are taking on. For me, I didn't realise. As I was saying back there, the solicitor said 'I would be sending your deeds to Key Retirements', I thought 'oh no'. I just felt an awful let down so therefore, I didn't know enough about it.

2.17.4.2 Attitudes to bequeathing – how important is it for you to leave an inheritance?

We began the discussion by explaining how releasing home equity reduces the amount that a person would like to pass on to their children. The purpose of these questions was to get a sense of how important is the role of family and to bequests.

We received a mixed response to this question. Two people said they were keen on leaving something for their children. Another person stated that while they would like to bequeath but it is not a priority for them. The individuals with no children had similar opinions on leaving a bequest for their partners.

The person with equity release contract was also in favour of bequests. They mentioned that their contract stipulates that the provider cannot claim more than half the value of the house. This is why they purchased the product, as it would have solved their financial problems at the time as well as left a part of the house for their children to inherit. One respondent was not happy with the interest rate and contract terms of their equity release product. This highlights the issues around transparency of the functioning of equity release contracts.

"Respondent: When we were taking out this equity release, my children didn't care about the money and they don't care even now. They were like live life. But I wanted to leave something for them. My husband did not question the interest rate because he thought that they (the provider) would claim 50% and the other half would go to our children and that would be enough. Whereas mine is that, the interest rate is too high.

Moderator: But surely, if 50% of the house value is insufficient to cover the loan amount plus interest, the NNEG clause and this 50% clause should protect you.

Respondent: Ah! I need to make sure that is written in the contract and they are not just saying it, because I am not sure what's in the contract. I was never interested in it. My husband did all the talking."

2.17.4.3 Equity release products – what do you know about equity release products?

Apart from the equity release customer, none of the participants had enough to contribute to this discussion. One participant compared an equity release product to an investment that goes bad. In their view, an equity release product might provide money at the time when it is required but becomes worthless later on. These comments suggest that people either are misinformed or lack knowledge on the subject.

The equity release customer was very open about their experience and shared that they never wanted to use the product in the first place. However, due to their prevailing conditions at the time, they did take out a lump sum of £25000 from their home. An important issue highlighted by this person was the lack of transparency and guidance from the providers. It was mentioned that neither did they receive proper financial advice nor were they told about the complete process before initiation of the contract.

"Well I didn't agree with it anyway at the start, but we obviously got things done that we wouldn't have got done otherwise. And then my daughter would say to me 'live life'.

She would say she would feel sickened by the fact that they have so much, the value of the house has increased so much now and the deeds and everything so she would tell me to go here and there. They take your deeds. That annoyed me because they did not tell us they would take them before. It was a lump sum payment of £25000. We won't take anymore now, definitely. We did not receive any advice from anyone. It was all over the telephone. My husband did all the talking. He would speak to one particular girl at all the time and she explained to him. I wasn't really in favour of it so I didn't really take an interest in it but in the end I had to sign it. Both of us had to sign. But to see that amount double over 9 years because the interest rate is so high gives me an awful feeling."

Issues around trust in the product and the providers were also discussed. The discussion indicates that since the financial crisis, people in general have lost confidence in financial institutions. Even more so if it is something to do with their house. Therefore, it is not surprising to observe such distrust of equity release products in this group.

"We don't trust it because we feel it is not regulated the way it should be and we would not have trusted it even if it was. Because you look at the financial markets over the last ten years and the different things that have happened that you would have thought would never ever happen, like a bank collapsing or investments in pension schemes that are paying you out less than you have put in. So I don't think anybody trusts the whole European financial market. Because you know these banks, insurance companies, and various investment brokers, they are not afraid of their shareholders now even. I mean they used be afraid of their shareholders but now they are willing to take a chance on that just so 'we will have a go at this'. And I think it getting back to the fact now that they are getting pushed into that situation where they may be take risks that are wee bit dangerous, so how can we trust anybody?"

"I couldn't trust the bank. And I have discovered that on sadly that's why so many today have been caught on the hot because they have depended on the advice of the bank and when the chips go down they couldn't stand over. And that's one of the other thing, you may get a product for this situation that we are in but can we trust the people on marketing it? Can we trust, is there integrity?"

Where would you go for the information on these products?

Participants mentioned that they would go to organisations such as AgeNI and AdviceNI. However, one of them commented that they would rely on their personal research if they were to enter an equity release contract.

Do you think if there wasn't a sufficient stream of income from your pension to cover you from retirement, it might be useful to use your house to generate some sort of income stream through a product such as an equity release scheme to supplement your pension? Do you think there is any mileage in that?

There was a mixed response to this question. While one participant who resides in a rental accommodation, supported the idea of using equity release schemes to support retirement income, there was another homeowner who disagreed. This conflict of opinion between a rental dweller and a homeowner on the concept of using homes for income displays the variation in significance of housing. Homeowners, who are potential equity release customers feel differently about using their homes for income while the ones who don't seem to have a practical view on the subject.

"Why should one live under pressure of no finance whenever they have something of considerable value that they are living in it and could possibly use. There is certainly mileage in it. There is no harm of investigating it, getting figures, getting facts, certainly no harm."

"Respondent: I think older people would be very reluctant to put any jeopardy on their house. That's the last think they want to lose.

Moderator: But even if your pension wasn't enough to keep you going from one month to next?

Respondent: I can't imagine what it would be like, if I was in that situation, not to be able to live where I live I think I would do nearly anything rather than put living where I am in jeopardy. I don't know what I would do, go and wash windows or floors or something but I would not put the risk of losing my house."

The above response highlights the degree to which some people are attached to their homes. In fact, emotional attachment to the house was mentioned at several occasions in this focus group discussion.

Further, this question opened the discussion on the influence of personal circumstances on financial decisions and attitudes to savings. The existing equity release customer mentioned that taking out an equity release scheme gave them the required financial aid for their problems, which would not have been taken care of otherwise. However, such lump sum equity release schemes may not be suitable for people who have a random spending behaviour, as remarked by a participant.

"You see with equity release, a lot of people, maybe at a certain age or if they have a certain way of handling money, they would say well 'that's money in my hand now' and blow it on holidays and all. I mean there is quite a few people blow them on holidays and then they find out what was saved and used, that was their rent paid basically is no longer there."

There are many providers involved in the equity release market such as banks, insurance companies and commercial companies and so on. Just looking at the list of providers, which of these you think are the most trustworthy and the least in relation to these products.

Table 4: List of Equity Release Products Providers

Provider	Grade
Banks	1
Commercial Companies	0
Insurance Companies	1
Occupational Pension Funds	0
Government	1
Other (Credit Union)	1

In the current scenario, commercial companies, insurance companies and financial institutions provide equity release schemes but potentially other entities such as credit unions and pension funds could also provide them. There could be a role for government as well. In this segment, the participants were asked about the supplier that would give them the greatest level of confidence in terms of a good deal and contract terms and the supplier they would prefer purchasing the product.

Only three out of six participants responded to this question. One of them said they would prefer going to their bank should the need arise. Another participant mentioned that insurance companies were one of their preferences. The participant also commented that credit unions could be potential providers as they are essentially not for profit organisations and are trustworthy.

One participant expressed a more balanced view on this matter. They mentioned they would check the trustworthiness of these suppliers initially, make sure they are dependable and are offering good rates before entering an equity release contract. Therefore, the choice of an equity release supplier depends on their credibility as well as their capability to provide fair and profitable deals.

"My reaction to these would be, first of all I will be checking on the security of each individual whether it is a commercial or a company or a second individual. And then the second thing I would go to them all and get a quotation raised rates wise and if we are totally secure, backed up guarantee wise, I would then take the best rates. Now if the best rates are too good to be true, probably they aren't, I won't touch them. They all have to be within a range you know."

Conclusion

This session was an interesting conversation with a diverse group of homeowners, rental dwellers, retired and working individuals. There were some mixed views on homeownership, significance of homes and using homes as a retirement asset. For the homeowners in this group, their homes are important to them and they seemed reluctant to use their homes for retirement funding. It was partly due to emotional attachment to the house and partly because of the location of their residence and neighbourhood. The analysis suggests that stability and security matters for this group, and that is why these individuals would prefer to live with what they have and where they are. The individuals who reside in rental accommodation expressed similar views on the importance of neighbourhood and location of the house. In fact, this concept of emotional attachment to the house and neighbourhood was raised a couple of times during the discussion. In addition to that, we came across similar views among the participants of the previous focus group. Therefore, being emotionally attached to the house and locality seems a serious impediment to using homes for retirement funding, especially through withdrawal mechanisms that involve moving.

Inheritance seemed important to this group. This is contradictory to what we found for the first focus group. The participants of the previous focus group would have liked to bequeath but it certainly was not their priority. The analysis of this group's responses to the questions on bequeathing suggest otherwise.

Further, we find that the group had limited knowledge on equity release products. We observed some prejudices against the product and providers. Many of them believed equity release products could be used for a onetime lump sum funding. There were also issues raised about regulations of the product, trust in the providers and lack of transparency of the process. The response from the person who has used an equity release scheme before validated these issues, especially on financial advice and credibility of providers. Their response added new dimensions to our analysis. For instance, there seems to be a lack of financial advice and guidance from the suppliers of this product. Further, the transaction process appears questionable and there are issues around the rates of interest applied on these products. An important point to note is that in many cases the process of obtaining an equity release contract is conducted over the telephone, which is different to when people buy their homes initially. Therefore, there seems to be a scope for the regulators and providers to make the process clear and less intimidating for potential customers. Lastly, we find that both credibility of the equity release provider and contract terms are important for people. We did not come across issues of inheritance tax in this session, as we did in the previous focus group.

2.18 UK: Focus Group 3 (September 2017)

2.18.1 **Introduction**

Since July 2016, three focus group meetings have been conducted. Each of those meetings were organised in liaison with consumer representing organisations situated in Belfast. The purpose of those meetings was to explore people's attitudes towards using their home as a retirement asset. In particular, we explored their views on equity release schemes (ERS). These financial products enable homeowners who are at least 55 years of age to withdraw home equity either as a one-time lump sum or as annuities, without having to make regular repayments and without moving out of the house. A key take away from those discussions was that equity release products have a negative reputation. A majority of the participants present at the meetings had limited knowledge of the products and their disbelief in them was obvious. There was a widespread perception that equity release schemes are expensive products and carry hidden costs. In view of many participants taking out an ERS was better than downsizing of homeownership, as it did not involve moving of house, which can be costly and a hassle in old age. However, this positive aspect of equity release products was overruled by the level of scepticism that people had towards them.

At the same time, leading equity release suppliers in the UK were interviewed to identify problems in the current ERS market from suppliers' side. Again, the main barriers highlighted to the growth of UK's ERS market were lack of product knowledge and understanding and negative reputation. In addition to that, the unwillingness among ERS customers to share their experience of using these products, irrespective of how they were, was highlighted as a barrier in attracting new customers to the market. Suppliers commented that many ERS customers, who purchase the plan for the purposes of supporting their consumption in retirement, consider it as a shameful act because it reflects their failure in retirement planning and hence shy away from sharing their experiences. Furthermore, a significant problem that almost all UK ERS providers face is that of availability of funding and the strict regulations around them. Equity release products are long-term liabilities for providers with uncertain termination dates and the presence of the no negative equity guarantee makes it difficult to manage the risks associated with this type of offering. In the presence of these complexities and strict funding rules, many ERS providers in the UK have a small appetite for risks and therefore offer low proportion of the house value as loan amount, making them less attractive for consumers. The issues around funding have also restricted innovation in terms of products and entry of new ERS providers to the market.

The objective of this final meeting with consumers was to discuss the ways of overcoming the aforementioned problems in the current ERS market. In particular, ways of enhancing trust and raising awareness on equity release schemes were discussed in this meeting. In the second half of the meeting, a number of product strategies were presented before the participants to explore if they were an improvement over the existing equity release products available in the UK and if so in what ways. Below are the details of the meeting.

2.18.2 **Methodology**

For the purposes of this focus group, all individuals who had attended previous meetings were invited. The meeting took place at the premises of Queen's University Belfast and it lasted for three hours. The discussion was carried out in two segments, each of which were conducted by separate moderators. The moderators introduced the topic at the start of the session and asked questions on them. None of the moderators shared their personal views on the topic to avoid any biased responses. At the start of the meeting, participants were informed that the purpose of this focus group was to support our independent research and there were no commercial gains involved.

2.18.3 **Data**

There were six individuals within the age bracket of 62-80 years present at the meeting. Each of them sit on the forums of consumer representing organisations AgeNI, EngagewithAge and COPNI (The Commissioner for Older People for Northern Ireland) respectively. For instance, one of the participants chairs the consultative forum of AgeNI. Similarly, another individual is actively involved in organisations and committees that represent the interests of older people. We had another individual in the group who did consultative work for the Civil Service Pensioners. Therefore, this group represented the views of older consumers, to a large degree.

Table 1 displays some of the characteristics of this group. The data comprises of employed and retired older homeowners. None of the members in the group has outstanding mortgages and they all appear to be in relatively stable financial conditions. An important aspect of this data is that it includes an individual who used to be an equity release customer. Thus, it was a good opportunity for us to evaluate some of the alternative strategies that we are suggesting against the views of a user of existing equity release products.

Table 1: Characteristics of the Group

Age	**Homeowners**	**Type of Dwelling**	**Household Type**	**Outstanding mortgage (£)**	**Retired/Employed**	**Household Income**
62	Yes	Detached or semi-detached dwelling	One person	0	Retired	Below average (lower income)
80	Yes	Apartment	Couple with children that all live elsewhere	0	Retired	Below average (lower income)
75	Yes	Detached or semi-detached dwelling	One person	0	Employed (Self-employed)	About average
75	Yes	Terraced dwelling	Couple with children that all live elsewhere	0	Retired	About average
71	Yes	Apartment	One person	0	Retired	About average
73	Yes	Detached or semi-detached dwelling	One person	0	Employed (On zero hour contracts)	Above Average (higher income)

2.18.4 **Discussion**

2.18.4.1 What should a good ERS product look like?

Members of the UK equity release council must follow these safeguards:

Product standards:

- For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a "cap" (upper limit) which is fixed for the life of the loan
- You must have the right to remain in your property for life or until you need to move into long-term care[8]
- The product must have a "no negative equity guarantee". This means that when your property is sold, and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.

Independent legal advice:

- You may choose your own solicitor to carry out the legal work in connection with your plan. Before the plan is completed, your solicitor will be provided with full details of the plan, including the rights and obligations of both parties (you and your product provider) under the contract, should you choose to go ahead. [9]

Information about and explanation of your equity release plan:

- You will be provided with a fair, simple and complete presentation and explanation of your equity release plan. You will be given information about:
    - all the costs that you will have to bear in setting up the plan;
    - the tax implications;
    - what will happen if you wish to move to another property; and
    - how changes in house values may affect your plan.

In the first instance, participants were told about the safety measures mentioned above. These safeguards are a requirement by the Equity Release Council that every ERS provider must meet. The purpose of having these safeguards is to ensure that the process of releasing home equity remains transparent for consumers from the start until the end. All those entering into an equity release plan are explained about their particular plan in depth. For instance, they are provided with elaborate illustrations, informed about all costs and tax implications and explained about the effect of amendments made to the plan once it initiates, for example 'early repayment options'.

There was a consensus among the participants that each of these requirements were necessary from a consumer's perspective as they make equity release products safe. However, it was highlighted that while these safeguards were important, they were very complex for an older person to comprehend.

"*The comments that I have to make, particularly that last paragraph you referred to - you need o very sharp mentally to take all of that... And that actually can have a negative effect not on your equity but on your health, worrying about it, and thinking about it in the night. You need 7 hours of sleep as an elderly person, you end up at 3 or 4 thinking about it. It doesn't sound simple and fair, so fair could be ok but simple and complete to be the whole 10 yards. One yard at a time could be quite simple*."

"*That struck me as well that it is very complicated, very difficult to take all that in, weighing out the advantages and disadvantages and then making a person who perhaps isn't in full*

[8] Provided the property remains your main residence and you abide by the terms and conditions of your contract. You have the right to move to another property subject to the new property being acceptable to your product provider as continuing security for your equity release loan.

[9] Both you and your solicitor will be required to sign a certificate confirming that these rights and obligations have been explained to you and that you wish to enter into the plan.

control of their mental state so that sort of thing declining mental cognitive ability to beginning to decline I think that could be difficult."

Do you think these safeguard measure are enough to build trust in equity release schemes?

There was only one person who responded to this question. The participant raised their concerns over the lack of financial literacy and practical knowledge among people who have not had the experience of making investments. In their view, such people are vulnerable and lack the ability to weigh the pros of cons of using a financial product like the equity release scheme, in spite of receiving proper financial advice and product information. Such people are less likely to trust equity release schemes.

"We have to take into account that people who are dealing with them, that have maybe saved and got a property and it could maybe that an equity release is not in their best interest but they would maybe see that because contextually the finance market has not been too good over the last 10 years in terms of trust. I think that this could be an excellent scheme for the person but they might distrust! So how you actually have a good product, you maybe also need intermediaries that are going to build the trust and if that person hasn't been in a relationship with a financial adviser or with someone who they trust and all of a sudden this product comes out, they might actually miss out! Because they haven't been in that relationship, so we have to maybe look is this a product that fits maybe a more middle-class person who has got a bit of property or people who haven't had those sort of relationships and are maybe missing out on a product that could be quite good for them... Their biggest purchase and probably they don't look out at a lot of other investments and haven't got financial advice so they may not trust in a scheme that would be actually good for them. This is sort of the angle you need to take when you talk about a good product."

The average interest rate for a lifetime mortgage is about 5.5% and the average rate on a standard/traditional mortgage is just over 4%. There is about 1.5% difference. Do you think that this differential is worth of it?

The group did not see any issues with the level of interest rates charged under equity release schemes. In their view, it was fair to charge interest rates relatively higher than traditional mortgages. Firstly, because the level of risks involved in an equity release offering is greater in comparison with a traditional mortgage. Secondly, unlike mortgage products, equity release schemes do not involve regular repayments. Providers recover the amount they owe only after the customer dies or moves into a long-term care home and therefore there is always an uncertainty as to when they will receive their money back.

"*There is a high risk obviously for the mortgage provider. It seems to me fairly reasonable differential.*"

"*I mean the big thing is that they are not getting back their money until the end as an ordinary mortgage, you are paying towards it all the time. So they are not out the whole amount of money all the time and they are also subject to the market conditions and all of that could lead to the NNEG.*"

Do you think there should be any form of incentives for people who take out an equity release scheme? Incentives such as tax incentives for the purposes of promoting equity release products.

A majority of the group was neutral in response to this question. Participants were concerned that tax incentives might be misused. Moreover, it was mentioned that providing tax incentives to non-earning older homeowners would not be practical. One of the participants thought that incentives in the form of reliefs on inheritance tax for the beneficiaries would be useful.

"*Yes I think tax incentives might be useful as people begin to find themselves in wells that they didn't expect to have. More and more people are moving into Trusts to avoid inheritance tax because the housing is one of things, for example, if you live in London and*

you may be quite poor but if you inherit something, you could suffer from inheritance tax because the value of your property is so high. Inheritance relief might be something specific to equity release, maybe!"

2.18.4.2 Creating more awareness and enhancing trust in equity release products

Is there a role for the media in this?

The group agreed that there was a role of the media in making people more aware of equity release schemes. At the same time, they mentioned that the medium applied for this purpose would be crucial in achieving positive effects. For instance, newspaper advertisements and television commercials were thought to be less effective.

"*I mean there is a role of the media in creating more awareness. So if you have a billboard and you are passing it every day, that eventually gets into your head. But if you don't see it at all then you are actually not going to be more aware of it and your mind is not going to come in to that way of thinking.*"

"R2: I get the Daily Telegraph every day and every day without fail there is an ad for equity release.

R5: But who reads the paper?

R4: I would tend to read the paper, my wife always complaints that I never read the ads. Likewise, on television, we would always tend to record stuff that we enjoy and then skip the ads."

Another point that stemmed from this discussion was about the need for keeping commercials and advertisements simple. The group was of the opinion that detailed and complex adverts could be overwhelming for older consumers, thus having a negative impact.

"... I find that if it was a very smart advert in the TV to might actually put people off, they might not understand it, they might feel threatened by it."

Further comments under this question steered the discussion towards the importance of identifying a target audience for the purposes of promoting not just equity release products but the whole range of options that would benefit cash-strained retirees. It was highlighted that people generally tend to pay attention to commercials and advertisements only if they are interested in that particular topic. It is less likely that a short television commercial would register with older people unless they are facing a similar situation or have been thinking about those topics. Therefore, the need of the hour seems to be identifying the section of older consumers who require additional support in funding their retirement consumption and would benefit from such products.

"If you are reading a range of other things so this is just one of other things. If you are that sort of person who is thinking about retirement planning or are in need of money, you are more than likely to do as you say inspect. But if it comes out of the blue and as I said it is something that you haven't thought about and you don't have a range of investments and stuff then you would need to, I think people would need to work on that sort of customers. The other customers are out there and it's a question of them debating and connecting and thinking about how an alternative to this might be better for them or worse and I think that is the way people make financial decisions, only if they are in a lucky position that they can make them."

Ways of creating awareness on equity release schemes and their effectiveness

We asked the participants to rank the different ways of raising awareness on equity release schemes in order of their effectiveness. The table below enlists these ways and provides the count of people who thought a particular method to be 'extremely effective', 'moderately effective' and so on.

Table 2: Ways of raising awareness on equity release schemes

Medium of raising awareness	Extremely effective	Moderately effective	Not sure	Will not work	Count of Participants
Commercials on television, advertisements in newspapers and magazines	1	4	1	0	6
Send an information brochure to all older homeowners	1	3	1	1	6
Open a website on the topic (or a website where consumers can compare quotes from a number of ERS providers)	1	2	3	0	6
Use social media (Facebook, Twitter)	1	2	3	0	6
Offer a free personal advice on pensions and housing equity	4	2	0	0	6

Note: A majority of the group thought that offering a free personal advice on pensions and housing equity would make people more aware of equity release schemes. Showing commercials and advertisements in newspapers were perceived to have moderate effects. Sending information brochures to people was also seen as a moderately important mechanism for raising awareness. However, in the opinion of one member of the group, sending brochures to just older households would be offensive.

By offering a free personal advice on pensions and housing equity, we mean that homeowners seeking out retirement planning options must be explained about the importance of the equity in their house and the products that enable them to utilise it. Table 2 shows that a majority of the group thought that offering a free personal advice on pensions and housing equity would create awareness. The first two mediums of creating awareness as mentioned in Table 2 were identified to be of less importance. One participant commented that sending brochures to older households would be offensive.

"I think to send brochures to older homeowners is quite offensive. If you are going to send a brochure about something, send it everybody, not just older homeowners."

We observed mixed opinions on opening a dedicated website for the purposes of promoting equity release schemes and for comparing quotes from a number of ERS suppliers at the same time. A few participants expressed their discomfort in leaving their personal details on websites. However, for others a dedicated website was a good way of gathering information and formulating opinions as long as they remained interactive and open to comments.

"On the question of opening a website, I immediately wrote in interactive, comments, open. So there could be other websites, people comment and feedback, to and fro. See I would find that very useful."

"The drawback with that is that it hit me when someone made a comment on compare.com. All those companies will have your information, which they can use for other purposes and that is the danger. I am not being negative but I see that as a problem."

"I was filling in something and I suddenly realised that in the last question they wanted my birthday and I couldn't see a lock on the top of the website name. So I thought no, I

might want the £500 that they are willing to give us as a prize but I am not willing to put my birth date out on an open website."

"I mean I think those compare sites are good actually. I mean yes they do take your personal details and yes they do send you a lot of stuff but if you are in a group that wants information on it at least gives you information on cost and then the difficulty is the jungle of detail, what you have actually bought. That's where you need advice!"

An important point that emerged during the discussion was that having access to reviews on equity release products and details of personal experiences of people who have used them would be crucial for the purposes of both raising awareness and building trust. It was mentioned that people tend to establish the authenticity of an information when they hear about it from others, which leads to its growth. At the same time, the participants commented that they have not witnessed such discussions elsewhere, at an informal level. It seems people avoid sharing their experiences, in spite of benefiting from equity release. Perhaps because taking out an ERS for supporting retirement consumption reflects their failure in planning for old age. The group was of the opinion that providing ERS customers with a platform for sharing their comments and reviews on such products/providers would be beneficial for people to become more aware of equity release and formulate opinions on them.

"I actually think that people who actually use it then don't talk about it and then you don't hear about it. The equity release is all sorted out and their family don't know. Not a lot of people do talk about it, do they?"

"Now if you go on to your Facebook and all and you see these adds coming up from solicitors, so you are reading something and then something comes from a solicitor, you know "this is attesting that we did a great job for so and so who had an accident". So that could be the next thing. So people who are providing ERS release a statement from their customers so for example Ms X took out an equity release and she did this with it and she is doing well and so on. So that sort of thing!"

"I think a good point that was made was that a lot of people might look at reviews when they google equity release. They might look at the worst and best reviews and work out from there."

"On regards to building trust, you can't beat personal testimonies. And if that could be encouraged within consumer representing organisations, in those groups, that would be one of the ways I would be quite keen to follow that through. People's experiences one to one."

2.18.4.3 Product Strategies

In this segment of the focus group, we presented a number of models that would enable people to use their house as a source of income in retirement. The objective was to get across the basic idea behind these models and evaluate if the participants thought that they were an improvement over the existing equity release products in the UK and if so in what ways.

Model 1: Government agency as an intermediary

Description of the model: In the existing structure of equity release schemes, a person of 65 years of age is entitled to borrow 30% of the house value. The loan to value ratio is relatively small primarily to cover the cost of the no negative equity guarantee (NNEG). Previous focus group meetings revealed that a small loan to value ratio is a barrier to the growth of the equity release market in the UK. In fact, researchers such as Alai et al. (2014), Andrews and Oberoi (2015), Hosty et al. (2008), and Li et al. (2010) have recognised it as a significant barrier to the growth of the market in the UK and have suggested techniques to evaluate and price the value of the NNEG. On the contrary, in the US system, the loan to value ratio is as high as 60% for a person of 65 years of age, however, only 3% of those eligible for such products uses them. Davidoff (2015) mentions

that the US market is small because reverse mortgages (American equivalent to lifetime mortgages) are perceived as costly products.

Therefore, the alternate strategy must offer a high loan to value ratio and it should be price efficient at the same time. One such model suggested by Andrews and Oberoi (2015) involves a government agency as an intermediary between the borrower and the lender. This model primarily focusses on lifetime mortgages. Here, homeowners take out equity release schemes in the usual way. The major difference between the existing lifetime mortgage and this alternate model is that in the former model customers repay a fixed rate of interest, while the latter involves variable rates. In Andrews and Oberoi's (2015) model, customers repay an interest rate, which is equal to a sum of an administration charge and a variable rate. This variable rate is linked to a regional house price inflation index. This would imply that when house price inflation is high, borrowers would pay a high interest rate. When it is low, they will pay a low interest rate but there will always be some minimum charge.

There are several advantages to this arrangement. Firstly, it should encourage low administration charges because the government can pool in risks across the various regions in the UK. Secondly, it would make easier to attract funding to the market, as lending would become less risky. Thirdly, easy access to funding would further reduce the administrative charge thereby reducing interest rates for customers. Finally, as long as this charge remains low and the customer's house value increases at the same rate as houses in the region, the amount of money owed would grow at the same rate as the house price inflation index, therefore there will be less of a chance of the no negative equity guarantee kicking in. Andrews and Oberoi (2015) estimate that this arrangement would increase the loan to value ratio up to 60%. It would also mitigate the basis risk, which triggers the NNEG. Basis risk or the idiosyncratic part of house price risk occurs when the returns from the individual house price are less than the changes in the house price inflation index.

House prices in some parts of the UK have stagnated and in some cases individual house value does not increase at the same rate as the regional index, for instance in Northern Ireland. In the presence of stagnating house prices and a constantly accruing administrative charge, the loan value could grow quicker than the value of the individual house, thereby triggering the NNEG. This is a major drawback of this particular arrangement.

Response: The participants responded positively to this arrangement. They enquired about details such as – if there is a financial crisis like that of 2007-08, if a government actuary would assess the value of the house, how often would the house prices be reviewed and who would be responsible for producing the underlying statistics.

There was a mixed opinion on the idea of involving the government in the market. For instance, one individual questioned about the logic behind involving the government. They raised that people are often sceptical of government interventions and are perceived as being motivated by hidden intentions. In fact, each participant was provided with a scorecard to evaluate the model. The card on this particular model asked for a response on the statement "I like that the government is involved in this product". To which, three participants agreed, two of them were neutral and one individual disagreed.

Further, the scorecard also included the statement "Providers won't lower their interest rates even with this product". A majority of the group agreed with this statement. This reflects the immense level of disbelief that individuals have in financial products and providers.

The response to another statement from the scorecard "Variable interest rates on equity release schemes would be ok" shows that the group was comfortable with the idea of paying variable rate of interests.

Overall, the group thought this model was a good suggestion and it would be attractive to many people. It was firstly because the participants thought that with this arrangement, people would still have a portion of the home equity left to pass on to their children.

Secondly, the involvement of the government would promote equal contributions from the public. This would further imply applicability of standard rules and regulations in relation to housing policies.

"I think the fact that you are not going to lose a great deal of the value of your house. You know that there is ultimately there going to be something left there. I think that in itself is reassuring."

"I also think that with the government involved, it means everyone can chip in their comments."

"And there is a certain amount of uniformity as well. Uniformity I think is very important when it comes to housing policies. Certainty! Certainty!"

Model 2: Integrating a traditional mortgage and a lifetime mortgage into one product

Description of the model: This model is a combination of an ordinary mortgage and a lifetime mortgage (loan model of equity release schemes) and it is directed to younger borrowers. In this model, the government provides a tax relief on the regular mortgage repayments. This tax relief is invested in to a pot and it accumulates over time in a way similar to pension contributions. For instance, a young couple takes out a mortgage in their 30s. They repay their mortgage in the usual way but at the same time receives a tax relief on those repayments. Those rebates are invested into a fund that accrues interest until the couple retires. Assuming that they repay their mortgage by the time they retire, the couple can liquidate the retirement pot either by drawing down a lump sum or by taking out an annuity. At the same time, they are committed to buying a lifetime mortgage. This arrangement gives them two retirement income streams – income form the lifetime mortgage and income from the additional pot of money accumulated over time in terms of the tax relief on mortgage repayments. Thus, those two income streams plus the state pension provide for their retirement.

Response: The initial questions raised by the participants focussed mainly at clarifying facts such as "who would be responsible for the management of the fund", "will there be any sort of initial deposits", "what will happen to the fund if the customer dies before they retire", "whether the customer would be allowed to access the pot without taking out a lifetime mortgages" and "whether they will be allowed to move houses".

The response to the questions under this model in the scorecard indicates that this model would be attractive to first-time buyers. The group was of the opinion that young people need support with buying homes and savings for their retirement. They also agreed that mortgages and retirement savings should not be treated separately and they expect to see schemes that would encourage homeownership in case of younger individuals and retirement saving at the same time.

The major criticism against this model was that it involves a long-term outlook. The group was of the opinion that it is not feasible to restrict customers in terms of using their money. Especially, because in the initial years, people tend to rely on such rebates for paying their mortgage. Moreover, they mentioned that from a young person's perspective, it would be difficult to commit their home for supporting retirement consumption.

"*This model may prove difficult for some home buyers as many rely on the tax relief to help pay their mortgage in the early years. Possibly this model could be introduced within 10 years of a mortgage being taken out."*

"The pot itself might be something that you are not going to get but you are going to give it somebody else, so again you have to give flexible conditions around the pot."

The overall rating for this model was somewhere between fair and good.

Model 3: Shared homeownership and tenants' fund

Description of the model: This model is targeted to people who cannot own their own homes. They are low incomed but have enough to pay some sort of rent. Here, a group of potential homeowners come together and buy shares in a fund as opposed to buying their own property. The actual share that they own is not related to the property that they live in but it is related to this fund. Therefore, the whole idea is that the more shares of this fund that they own, the lower rent they should pay. In addition to low-incomed people's contributions, the fund is subsidised by external funders such as a housing trust or a social agency. The fund is deposited in the bank and used for mortgage lending in the conventional way. The resident's shares can only be bought by other residents or by the fund. The fund owns the property but over time, the resident can actually become an owner and the residents then could also liquidate their shares for retirement.

One of the benefits of having such an arrangement is that instead of buying a house or putting down a large deposit for a house, people can buy a smaller share of the property value, which would give them a sense of ownership. As the shares are sold flexibly that is they can be sold back to the fund or they can be sold between the members of the fund, people can either sell their shares to other members or sell them back to the fund and get the capital back in order to pay for their retirement.

Response: In view of some participants, this model would succeed if older people wanted to live independently. It could be an alternative to regular care homes in the sense that people with similar ideologies could come together and look after each other and live more independently.

"I think it's an excellent idea but I see it as being an excellent idea for independent living for older people actually. This could be a model where you would have independence in small groups that connect together, have a reason, maybe share common values and instead of having to go to a care home where somebody wipes you with a cloth you will be looking after each other. There is an element where some of these models have been emerging. There was a group of women I think who spent 20 years band playing and I think within this model, I think I can see something that could be an alternative to dependency type of care."

A review of the scorecard on this model suggests that a majority of the participants thought that this model would be attractive to low income groups. It also brings forth mixed views on whether this model would prove to be an efficient way of retirement saving. Furthermore, the fact that this model relies on social cooperation does not guarantee its success, as indicated by the scorecard.

The model was criticised heavily because of the level of complexities involved. Many participants expressed that they did not understand the model properly because it sounded very complicated. Another criticism was on the social cooperative nature of this model. It was mentioned that sometimes people miss on their contributions and it would be difficult for the government to manage such problems, especially if the scheme grows.

"I think size might be a problem because the larger it gets the more social problems it would have… I would like to live on a side of hope but I know that sometimes in these shared sort of schemes, some people don't put their weights (their money contribution) and that can be problematic in terms of how you discipline them with mass or baseball bats or you just reason with them. So I think that could be a difficulty, the source of cooperation is wonderful but it doesn't always work.

Model 4: Mortgaged private pension scheme

Description of the model: This is a hybrid model and it incorporates pensions and housing into one product. The model stems from a combination of two welfare policies from Germany. Firstly, in Germany, pension schemes are incentivised through tax reliefs. Secondly, there are facilities to allow tax reliefs to encourage homeownership. These schemes are interchangeable in the sense that individuals can buy their home and then sell it but they can hold the tax relief that they received in exchange of house purchase as long as they transfer it directly into a pension scheme and vice versa. In the presence of

such policies, the questions that arise are "why not treat pensions and housing in the exact same way" and "why not incorporate them together into one product". Therefore, in this model, an individual takes out a mortgage, makes mortgage repayments, receives tax reliefs on those repayments and ultimately converts the house into an equity release product on retirement. A drawback with this arrangement is that the terms of the equity release scheme will have to be decided at a very early age, which could be difficult to price.

Response: The group mentioned that this model was simpler in comparison with some of the other schemes discussed earlier. One of the shortcomings identified was that in case of couples, there could be differences of opinions on matters such as staying in the house and using the pot of money, which could lead to complications. It was also raised that this arrangement would be difficult to manage if the couple separated. Another point highlighted was that younger people would be less likely to be locked in such long-term products. Furthermore, the model does not provide any clarity as to what would happen in adverse events such as crashing housing markets. For instance, if the house devalues by the time the house is converted to an equity release schemes.

"… And if the house devalues… by the time you get to retirement and then you want to liquidate the value of the house that could be an issue. You might have paid off as if the house was worth a lot and then when the time comes it could have halved."

Model 5: Lifetime lease with parallel pension plans

Description of the model: This is a lifelong lease model geared towards people on low incomes. Here, a person entering the lease would have lifetime arrangements to residency. In return, the customer would pay a monthly contribution to the lease providers. A proportion of that contribution would be treated as rent and remaining amount would be invested into a pension fund. The rent charged would be below market rates because of the long-term commitment. The government could provide some sort of tax incentives in term of the rent as well as in terms of the pension contributions. On retirement, the customer continues to live in the house with rents and pensions paid from the accumulated fund.

Response: This arrangement was criticised on the fact that it does not allow people to move. The group expressed that people are very mobile these days and therefore, would fail from a practical aspect. It was also mentioned that the model fails in the face of common laws that provide the freewill to dispose one's own property. Further, the model does not specify details in relation to maintenance of the property and who would be responsible for it. It was said that "people generally lack incentives to maintain a property if they are not the owners but are renting it".

"R2: (immediate response) They can't move!

R4: What they can't move! Oh that's impossible then.

R2: …from a young person of 25, you are telling them they have to live there until they are 75, in the same house. You can't do that! No! We are very mobile these days."

Further, the scorecard suggests that it is less likely that the government would subsidise this type of arrangement. There were concerns raised in terms of management of the pension fund, if rents would be calculated based on house characteristics such as geographical location and the amendments that would be made to this arrangement in shock events like divorce.

"How do we work out a market rate? I mean there is going to be a difference according to aspects like urban rural, differences in market rates, I would assume. If I live in Dublin and I got a market rate from outside Dublin, I will be good. But it wouldn't be so good if you got the Dublin rate if you live in rural area."

"And then again if something happened to the couple, if they divorced or separated or illness or if one of them dies, who gets the house?"

Nevertheless, the group agreed that this model would appeal to low incomed individuals who are unable to afford decent places to live. It would also be attractive because it provides stability and guarantees a house to live for lifelong.

"I guess for some young people, it might seem attractive because if you are trying to rent a property at any time the owner can come and say to you, I am going to sell this place and they are out of their home. And when they go to look for another house, the rent is maybe 1.5 or 1.25 times what they would have already been in. And sometimes that is what happens. That is one way of getting rid of you. They say they are going to sell and then they don't and they take it with someone new to rent it. So this might be attractive possibly to some people but I think long-term issue of it. As you were saying for a lot of people you have to move now to get jobs."

Conclusion

The main points that are coming out of this focus group discussion are as follow:

- From a consumer's perspective, there is still scope for the equity release market to be transparent and open. The market needs to adopt measures that would enable ERS customers to share their experience freely in the public domain. The media has an important role to play in enhancing the image of equity release schemes and in overcoming the stigma that has long existed.
- The discussion on alternate models suggest that older homeowners would be attracted to products that will enable them to use the home equity for subsidising retirement consumption and let them leave a portion of it for bequeathing, at the same time. They would be attracted to products with uniform rules and regulations. The model should provide them flexibility to move and to amend their contract according to their needs, while being price efficient.
- There seems to be a receptiveness among consumers for a product strategy that would integrate housing and pensions. However, such strategies must provide them the freedom to move and be adaptive to the changes in personal needs and circumstances.
- There is a reluctance from consumers towards the idea of the government being involved in this market, especially in terms of product distribution channels and management of retirement funds.

3 Extra research findings and extracts of papers and publications

3.1 Paper overview: "Analysis of Housing Equity Withdrawal by its Forms"

Title of the paper: Analysis of Housing Equity Withdrawal by its Forms

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Working paper available at https://ideas.repec.org/p/qub/charms/1704.html

Overview of the Paper

Housing wealth is a dominant asset for a majority of households and the decision to withdraw or retain it is crucial (Benito, 2009). There is a range of ways in which households withdraw home equity. A popular method is remortgaging, which is the same as taking out a second mortgage or extending an existing mortgage on the property. Downsizing and equity release schemes (ERS) are other ways of housing equity withdrawal (HEW). The former involves selling of partial or complete ownership of the house. Households downsize when they sell their house and move into a rental dwelling (Angelini and Laferrere, 2012; Chiuri and Jappelli, 2010) or when they move into a house that is either lesser in value or spatially smaller in comparison to the original house (Banks et al., 2010). The latter, an equity release scheme, enables homeowners of 55 years and above to liquidate home equity without having to move out of the house or make any regular repayments (Alai et al., 2014). This age-specific financial product of facilitating HEW has been recognised to have the potential to support retirement consumption and long-term care needs (Andrews and Oberoi, 2014; Fox O'Mahony and Overton, 2014; 2015; Jefferson et al., 2017).

In general, previous studies have discussed the role of housing equity in supporting consumption needs. For example, Hurst and Stafford (2004) develop an optimal household-level refinancing model to show that households with less liquid assets are more likely to pay the fixed cost and withdraw home equity through remortgaging in times of adverse financial shocks. Similarly, Nakajima and Telyukova (2017) develop a model to analyse an older household's decision to purchase a reverse mortgage (loan-model of ERS). Their results indicate that the welfare gains of reverse mortgages are substantial for older households, single households and households in poor health. Another study by Banks et al. (2010) model housing transitions of older UK households and US. The study suggests that downsizing of home is an important part of life for many older households in both countries. However, UK households have a low tendency to downsize.

A limitation of previous studies is that each of them concentrate only on a single method of HEW. The literature lacks a comparative analysis of the different ways in which households may facilitate a HEW event. Perhaps due to the unavailability of a single dataset informing about the household's decision to remortgage, downsize and purchase an ERS. However, since there is a fixed cost involved in accessing home equity through either of those channels, it seems important to establish how a household's decision to use them vary across economic and demographic variables and whether they are substitutes for each other. In this paper, we address this gap.

In this paper, we explore a household's decision to use a particular method of withdrawing home equity from a range of options available to them. Where, the range of options include financial products such as remortgage contracts and ERS (reverse mortgage and home reversion schemes) and informal mediums carried out by individual households themselves, for example downsizing of homeownership. The data used in this study is the household level data from the UK Wealth and Asset Survey (WAS) for years 2006-2014.

WAS is a longitudinal study of more than 43000 households across Great Britain, excluding Northern Ireland. We use the first four waves of the survey. The survey provides comprehensive insights to household-level wealth, income, outstanding mortgage and unsecured debts, in addition to households' characteristics. The survey also provides information on households' past equity withdrawal activities, i.e. remortgaging, downsizing and ERS. Keeping those three HEW types as separate dependent variables, we estimate probit and multinomial models and OLS regressions across a set of household demographics, consumption smoothing variables (financial shock, marital shock and savings levels), liquidity constraints (loan-to-value and debt-to-income ratios) and variables controlling for macro-economic variations. Each independent variable represents a proxy to the fixed cost incurred by households while remortgaging, downsizing and taking out an ERS.

The results show that homeowners prefer using formal channels of equity withdrawal. This tendency persists when controlling for household characteristics such as age profile, marital status and demographics and levels of housing wealth, income, savings and unsecured and secured debts. We find that for each medium facilitating HEW, household consumption increases by 70% on an average following the event. Despite that, the tendency to downsize is low and they appear to be a last resort perhaps because they involve moving of houses and most households are emotionally attached to their home and neighbourhood. Another reason behind that could be the lack of availability of homes suiting their needs. Remortgage contracts and equity release plans (for households in the age bracket of 55 years and above), on the other hand appear more common ways of liquidating home equity, especially for households in debt. Therefore, our findings support the argument that while the decision to withdraw home equity conforms to consumption smoothing motives, the choice of an equity withdrawal medium goes beyond those motives and depends on the circumstances facing individual households.

The findings of this paper have a wider implication with respect to the ongoing debate on the role of housing equity in old age in the UK. The House of Lords '*Ready for Ageing'* concluded that pension savings in the UK is inadequate and the government must encourage pensioners to use their home for supporting retirement consumption and long-term care needs (Lords, 2013). Among the three ways of withdrawing home equity discussed in this paper, the role of downsizing in facilitating HEW for older people seems debatable. However, there seems to be a scope for the development of the market for financial products enabling housing equity withdrawal for older cohorts. Equity release schemes are only one type of financial product specific to the elderly. In the light of the results of this paper, the possibility of developing products similar to remortgage contracts must be explored, especially for older households retiring with debts.

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3.2 Presentation to the Actuarial Teachers' and Researcher's conference on the role of state intervention in the UK's ERS market (July 2017)

3.3 Paper abstract and table of contents: "Old-Age Poverty and Residential Property in the EU" (Dr. Eszter Megyeri, Andrássy Universität Budapest)

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Title of the paper: Old-Age Poverty and Residential Property in the EU – An Analysis with the EU-SILC 2014 Data, in: Martina Eckardt, Jörg Dötsch, Stefan Okruch (Eds.): Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options, Springer publ. (forth-coming 2018)

By Eszter Megyeri, Andrássy University Budapest

Abstract

On the basis of available EU-SILC data, this paper examines the relationship between old-age poverty and residential property in the EU member states. The descriptive section of the paper provides a comparative analysis of poverty indicators across EU states and different groups of the elderly population as well as a comparison of the elderly populations' homeownership rates in the different EU member states. The following sections look at the poverty risk and homeownership rate of the age group 65+ in conjunction, clustering the EU states according to these characteristics - that is, the potential demand for products that release the capital tied up in the elderly population's real estate holdings. For this purpose, an aggregated poverty risk index is developed, which in-cludes both monetary and non-monetary poverty indicators. The cluster analysis accounts for five groups of EU states, two of which (Latvia, Romania, Bulgaria, Croatia and Lithuania followed by Estonia, Portugal, Greece, Poland, Slovenia, Italy, Hungary and Ireland) can be considered target markets for pension products such as Equity Release Schemes.

Keywords: poverty, old-age poverty, home-ownership, residential property, EU

JEL classification: C38, D1, I32, J14, R2.

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3.4 Paper extract: "Personal Old-Age Provision and Private Homeownership: Life Cycle Patterns – Research Paper, Workstream 2.2"

Title of the paper: Personal Old-Age Provision and Private Homeownership: Life Cycle Patterns – Research Paper, Workstream 2.2

By Martina Eckardt and Stefan Okruch, Andrassy University Budapest, 2017

Introduction

Investing in private old-age provision and in private homeownership are two of the main investment decisions of households over their life cycle.1 So far, both the theoretical and the empirical literature on this subject is not very elaborated. In this paper we present findings from an explorative analysis based on data from the EU Statistics on Income and living Conditions (EUSILC).

We seek to provide insights on how personal income, pensions, homeownership as well as different fiscal incentives are distributed over the life cycle for the EU-28 countries. To this end, we take into account government subsidies and transfers as well as taxes and contributions to social security systems.

The underlying analytical framework is as follows: Resulting from the initial distribution of human capital as well as real and financial capital, individuals employ their capital on the markets. This results in the primary income distribution, according to which earnings are mainly a result of market forces. Via taxes and transfers, including social security contributions, the secondary income distribution results. With their spending and investment decisions, households and individuals change their accumulated human, financial and real capital. In addition, through regulations, taxes, subsidies and transfers governments influence both the original distribution of factor endowments and the (primary and secondary) income distribution.

In the following we show how different income components change over the life cycle. To this end we use the latest available EU SILC microdata for the EU-28, which cover the year 2013. They allow us to present the life cycle patterns of a number of income components in a cross-sectional fashion. The major source of old-age income results from compulsory statutory pension schemes, which in turn are (albeit to different degrees) related to one's personal earnings over the life cycle. They are supplemented with income resulting from personal old-age provisions and through the housing services resulting from private homeownership, inter alia. To get a more comprehensive picture of the impact of fiscal incentives, we include a discussion on taxes and social security contributions as well as on transfers and other social benefits.

The research report is structured as follows. Section 2 provides an overview of the EU SILC database and the methodology applied. Section 3 presents the life cycle patterns of old-age benefits from social security and related systems, including survivor's benefits. In addition, the main components determining these benefits (gross personal earnings, taxes on income and social security contributions, employer's social security contributions and taxes on wealth) are discussed. Section 4 looks at life cycle patterns of private pensions and of contributions to such plans which supplement the main statutory pension schemes. Section 5 turns to private homeownership, which is an important asset for supplementing old-age income. Life cycle patterns of homeownership rates and imputed rent as well as spending for acquiring private homeownership (mortgage principal repayment and interest repayment) are analysed. Section 6 focuses on additional transfers which improve one's disposable income, like unemployment benefits, children and family related allowances, education related allowances and housing related allowances. Following this, section 7 summarizes the findings for Germany, Hungary, Ireland, Italy, the Netherlands and the United Kingdom. For these countries detailed case studies on fiscal incentives and other public policy options have been prepared in Workstream 2.1. Section 8 concludes.

See Paper from the project website: www.equity-release.eu.

3.5 Book publication: Martina Eckardt, Jörg Dötsch, Stefan Okruch (Eds.): Old-Age Provision and Homeownership – Fiscal Incentives and other Public Policy Options, Springer publ. (forth-coming 2018).

Scope: about 280 pages

Against the background of demographic change and the growing problems of traditional old-age security systems, the need for additional private savings for old-age is obvious. There are two classical instruments to privately provide for old-age security, that is savings in private pension schemes on the one hand, and building up equity for home-ownership on the other hand. Both kinds of assets play a core role in allowing people of old age to manage their households when labour income is no longer available. However, both types of old-age provision might be in conflict with one another. Building up home ownership usually requires not only having savings, but taking out a mortgage, too. During repaying this debt, there are often no additional means left for investing in private pension plans. One way of mitigating this potential conflict could be to better integrate residential property with private pensions.

To evaluate the scope for such an approach, this volume assesses the interrelationship between private old-age provisions and home ownership in the EU. Since national governments strongly promote both savings in private pensions as well as building up home-ownership, special emphasis is given on the fiscal incentives and public policies implemented to achieve this. Due to the profound differences in the single EU member states, this volume focus on six countries – Germany, Hungary, Ireland, Italy, the Netherlands and the United Kingdom – to give more detailed insights in the complexity of private pension schemes, mortgage and housing markets.

This volume offers a unique compilation of the latest market developments as well as public policies in these fields. It thus informs policy making both at a national as well as at a European level, mindful of the complex nature of the subjects addressed.

The volume starts with an empirical overview by Eckardt of how household allocate there assets between private homeownership and private pensions in the EU-28 using the latest data from the Household Finance and Consumption Survey. This chapter also provides a classification according to which the different public policy measures applied by the EU-28 to increase participation of low-income households in both private homeownership and private pensions as either market-creating, market-correcting or market-compensating social policies. The following chapter by Megyeri provides a concise empirical overview of the risk of living at poverty for the elderly in the EU-28 with particular emphasis to the impact of homeownership on mitigating old-age poverty. A cluster analysis shows that the EU-28 can be grouped in five different clusters, allowing for a better targeted approach to combine pension and housing policies. The following six chapters presents detailed insights from six country case studies, which form the core of this volume. In the United Kingdom, Ireland and the Netherlands there are both well-developed markets for private pensions as well as a high degree of home-ownership. Compared to these countries, Italy and Hungary show a high percentage of homeownership, too. However, private pension schemes are of less relevance (see Italy) or of none at all (see Hungary). Finally, Germany shows a low degree of homeownership and at the same time a strong need for additional private pension provisions for future generations of elderly.

Structure

A. Old-Age Security and Homeownership in the EU

1. Personal Pensions and Homeownership in the EU – An Overview (*Martina Eckardt,* Andrassy University Budapest, Hungary)
2. Old-Age Poverty and Homeownership in the EU – a Quantitative Analysis with the 2014 EU SILC data (*Eszter Megyeri*, Andrassy University Budapest, Hungary)

B. Well Developed Markets for Private Pensions and Homeownership

3. Pensions, Housing and Mortgage Markets in the United Kingdom *(Tripti Sharma, Donal McKillop, Declan French,* Queens University Belfast, United Kingdom)
4. Holding on and Letting go in Ireland- Examining the Policy and Fiscal Environment for Supplementing Retirement Income from Residential Property (*Yogesh Jaiyawala, John Maher, Richard Burke, Sean Byrne*, Waterford Institute of Technology, Ireland)
5. Dutch Pensions and Housing: Towards a Social Divide (*Marietta Haffner,* Technical University of Delft, Netherlands)

C. Countries with a High Degree of Homeownership, but a Rather Low Degree of Private Pensions

6. Italy: an Ageing Country, with Low Level of Private Pension Schemes but a High Home-ownership Rate (*Pierluigi Murro*, *Flaviana Palmisano*, LUMSA University of Rome, Italy)
7. My Home is my Castle? Sustainability of Private Pensions and Private Homeownership in Hungary (*Jörg Dötsch, Martina Eckardt, Eszter Megyeri*, Andrassy University Budapest, Hungary)

D. Countries with a Low Degree of Homeownership and a Low Degree of Private Pensions

8. Germany: Ageing Economy with Rising Pension Gap, Stable Mortgage Market and Well-developed Rental Market (*Sebastien Clerc-Renaud, Doris Neuberger, Dirk Ulbricht,* Institut für Finanzdienstleistungen Hamburg, Germany)

Note: The work presented in this volume is part of the Research Project "Integrating Residential Property with Private Pensions in the EU" financed by the DG Employment, Social Affairs and Inclusion, (Grant Agreement number VS/2015/0218).

4 Examples of information infrastructure and outputs

4.1 Examples of the basic information leaflet for consumers

in Italian:

NUDA PROPRIETÀ:

VANTAGGI

- È possibile ottenere **importi maggiori**
- È molto **conosciuta**
- **Non si pagano più le spese** straordinarie dell'immobile

SVANTAGGI

- È una **scelta irreversibile**: la proprietà dell'immobile passa definitivamente di mano. Inoltre è un mercato poco liquido, con tempi lunghi e poca normativa di trasparenza
- I beni ci della rivalutazione dell'immobile sono **a favore del nudo proprietario**

PIV:

VANTAGGI

- È una scelta **reversibile**
- **La casa rimane di proprietà** del richiedente e della sua famiglia
- Tutela il valore della casa per gli eredi
- **Non ci sono rate**, a meno che non lo si desideri
- È possibile modulare l'importo desiderato
- Beneficia dell'imposta sostitutiva agevolata

SVANTAGGI

- **Richiede l'ipoteca** sull'immobile di residenza
- **Gli interessi, se capitalizzati** annualmente, si accumulano nel tempo
- È uno **strumento ancora poco conosciuto**, quindi è necessario rivolgersi a degli specialisti

Visita il sito

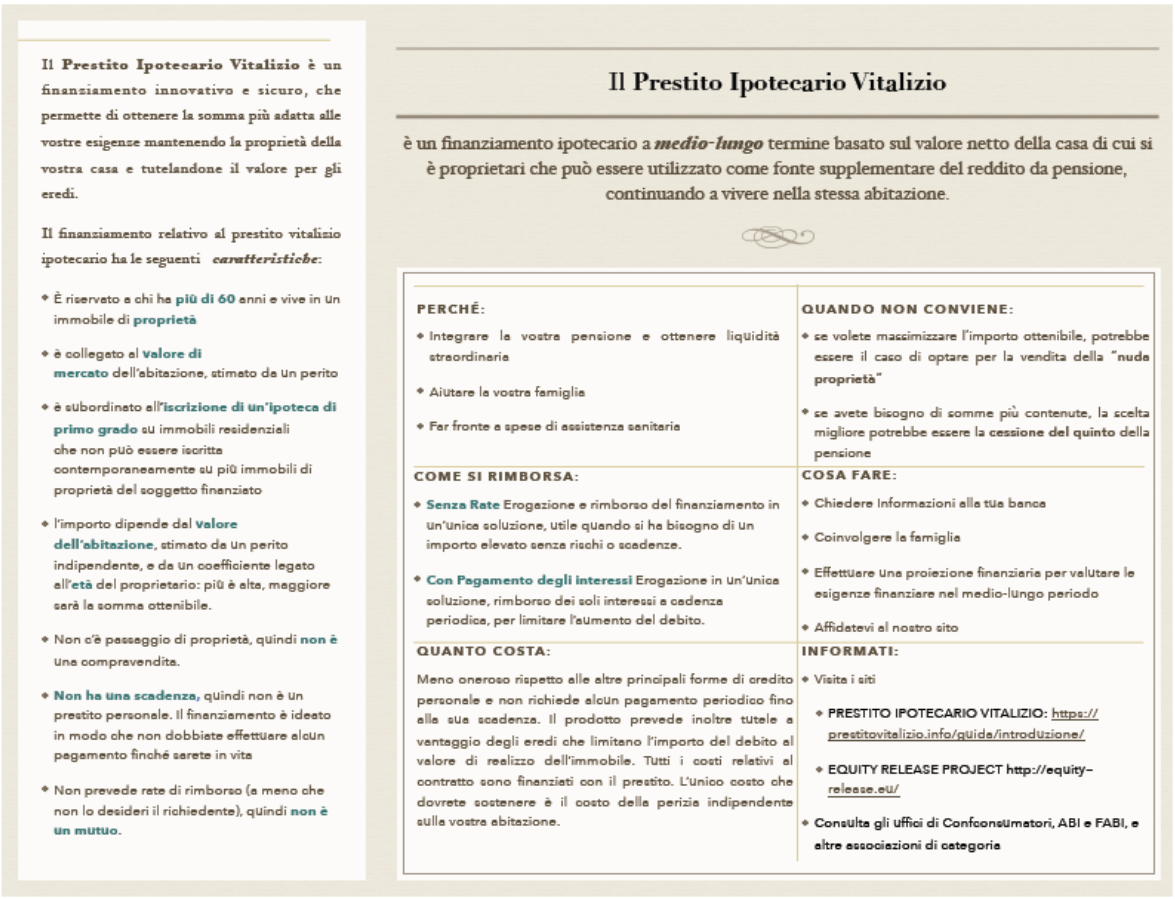
EQUITY RELEASE PROJECT

http://equity-release.eu/

PRESTITO IPOTECARIO VITALIZIO

FINANZIAMENTI PER I 60+

Tutto quello che avete sempre voluto sapere e mai osato chiedere



Il **Prestito Ipotecario Vitalizio** è un finanziamento innovativo e sicuro, che permette di ottenere la somma più adatta alle vostre esigenze mantenendo la proprietà della vostra casa e tutelandone il valore per gli eredi.

Il finanziamento relativo al prestito vitalizio ipotecario ha le seguenti ***caratteristiche***:

- È riservato a chi ha **più di 60** anni e vive in un immobile di **proprietà**
- è collegato al **valore di mercato** dell'abitazione, stimato da un perito
- è subordinato all'**iscrizione di un'ipoteca di primo grado** su immobili residenziali che non può essere iscritta contemporaneamente su più immobili di proprietà del soggetto finanziato
- l'importo dipende dal **valore dell'abitazione**, stimato da un perito indipendente, e da un coefficiente legato all'**età** del proprietario: più è alta, maggiore sarà la somma ottenibile.
- Non c'è passaggio di proprietà, quindi **non è** una compravendita.
- **Non ha una scadenza,** quindi non è un prestito personale. Il finanziamento è ideato in modo che non dobbiate effettuare alcun pagamento finché sarete in vita
- Non prevede rate di rimborso (a meno che non lo desideri il richiedente), quindi **non è un mutuo**.

Il Prestito Ipotecario Vitalizio

è un finanziamento ipotecario a ***medio-lungo*** termine basato sul valore netto della casa di cui si è proprietari che può essere utilizzato come fonte supplementare del reddito da pensione, continuando a vivere nella stessa abitazione.

PERCHÉ:

- Integrare la vostra pensione e ottenere liquidità straordinaria
- Aiutare la vostra famiglia
- Far fronte a spese di assistenza sanitaria

QUANDO NON CONVIENE:

- se volete massimizzare l'importo ottenibile, potrebbe essere il caso di optare per la vendita della "**nuda proprietà**"
- se avete bisogno di somme più contenute, la scelta migliore potrebbe essere la **cessione del quinto** della pensione

COME SI RIMBORSA:

- **Senza Rate** Erogazione e rimborso del finanziamento in un'unica soluzione, utile quando si ha bisogno di un importo elevato senza rischi o scadenze.
- **Con Pagamento degli interessi** Erogazione in un'unica soluzione, rimborso dei soli interessi a cadenza periodica, per limitare l'aumento del debito.

COSA FARE:

- Chiedere informazioni alla tua banca
- Coinvolgere la famiglia
- Effettuare una proiezione finanziaria per valutare le esigenze finanziare nel medio-lungo periodo
- Affidatevi al nostro sito

QUANTO COSTA:

Meno oneroso rispetto alle altre principali forme di credito personale e non richiede alcun pagamento periodico fino alla sua scadenza. Il prodotto prevede inoltre tutele e vantaggio degli eredi che limitano l'importo del debito al valore di realizzo dell'immobile. Tutti i costi relativi al contratto sono finanziati con il prestito. L'unico costo che dovrete sostenere è il costo della perizia indipendente sulla vostra abitazione.

INFORMATI:

- Visita i siti
- PRESTITO IPOTECARIO VITALIZIO: https://prestitovitalizio.info/guida/introduzione/
- EQUITY RELEASE PROJECT http://equity-release.eu/
- **Consulta gli uffici di Confconsumatori, ABI e FABI, e altre associazioni di categoria**

in Hungarian:

A PUSZTA INGATLAN ÉRTÉKESÍTÉSE

Előnyök

- Nagyobb összegeket kaphat
- Igen ismert.
- Nem fizeti többé az ingatlan rendkívüli kiadásait.

Hátrányok

- Visszavonhatatlan döntés: az ingatlan tulajdonjoga egyszer és mindenkorra átszáll. Emellett az adott piac kevéssé likvid, melynek hosszú átfutási ideje van és a vonatkozó törvényhozás kevéssé átlátható.
- Az ingatlan átértékeléséből származó tulajdon pusztán a tulajdonos javát szolgálja.

IDŐSKORI JELZÁLOGJÁRADÉK/ ÉLETJÁRADÉK

Előnyök

- Visszafordítható választás.
- A lakóingatlan a kérelmező és családjának tulajdonában marad.
- Megőrzi az ingatlan értékét az örökösök számára.
- Nincs részletfizetés, hacsak Ön ezt nem kívánja.
- A kívánt összeg módosítható.
- Használja ki a kedvezményes kiegészítő adó lehetőségét!

Hátrányok

- A lakóingatlanra jelzálogot kell bejegyezni.
- Ha a kamatokat évente tőkésítik, idővel felhalmozódnak.
- Mivel még kevéssé ismert, szakember segítségét kell kérni.

Látogasson el az

EQUITY RELEASE PROJECT

weboldalra:

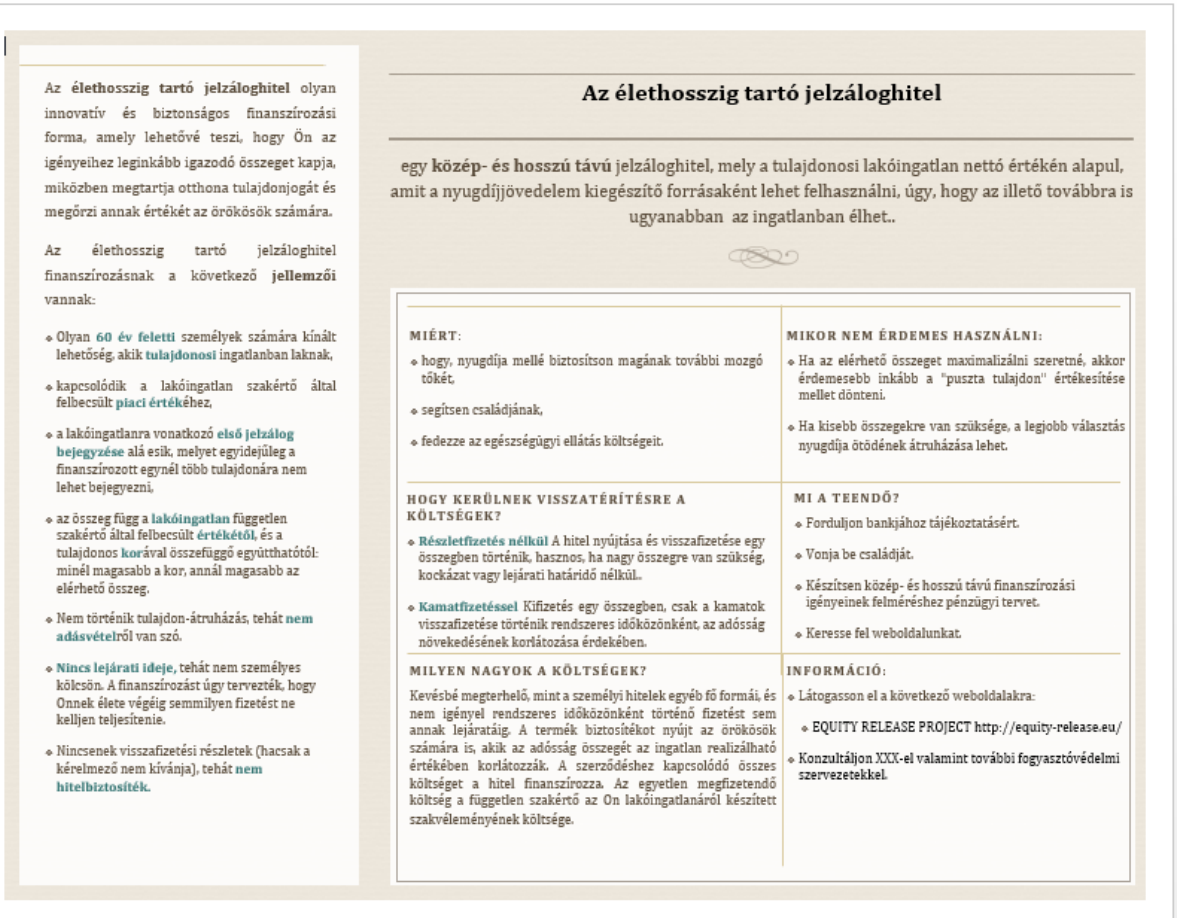
http://equity-release.eu/

IDŐSKORI JELZÁLOGJÁRADÉK/ ÉLETJÁRADÉK

PLEASE NOTE THERE IS CURRENTLY NIO MARKET FOR ERS PRODUCTS IN HUNGARY

FINANSZÍROZÁS 60 ÉV FELETTIEKNEK

Mindaz, amit mindig tudni akartál, de soha nem merted megkérdezni.



Az **élethosszig tartó jelzáloghitel** olyan innovatív és biztonságos finanszírozási forma, amely lehetővé teszi, hogy Ön az igényeihez leginkább igazodó összeget kapja, miközben megtartja otthona tulajdonjogát és megőrzi annak értékét az örökösök számára.

Az élethosszig tartó jelzáloghitel finanszírozásnak a következő **jellemzői** vannak:

- Olyan **60 év feletti** személyek számára kínált lehetőség, akik **tulajdonosi** ingatlanban laknak,
- kapcsolódik a lakóingatlan szakértő által felbecsült **piaci értékéhez**,
- a lakóingatlanra vonatkozó **első jelzálog bejegyzése** alá esik, melyet egyidejűleg a finanszírozott egynél több tulajdonára nem lehet bejegyezni,
- az összeg függ a **lakóingatlan** független szakértő által felbecsült **értékétől**, és a tulajdonos **korával** összefüggő együtthatótól: minél magasabb a kor, annál magasabb az elérhető összeg.
- Nem történik tulajdon-átruházás, tehát **nem adásvételről** van szó.
- **Nincs lejárati ideje**, tehát nem személyes kölcsön. A finanszírozást úgy tervezték, hogy Önnek élete végéig semmilyen fizetést ne kelljen teljesítenie.
- Nincsenek visszafizetési részletek (hacsak a kérelmező nem kívánja), tehát **nem hitelbiztosíték.**

Az élethosszig tartó jelzáloghitel

egy **közép- és hosszú távú** jelzáloghitel, mely a tulajdonosi lakóingatlan nettó értékén alapul, amit a nyugdíjjövedelem kiegészítő forrásaként lehet felhasználni, úgy, hogy az illető továbbra is ugyanabban az ingatlanban élhet..

MIÉRT:

- hogy, nyugdíja mellé biztosítson magának további mozgó tőkét,
- segítsen családjának,
- fedezze az egészségügyi ellátás költségeit.

MIKOR NEM ÉRDEMES HASZNÁLNI:

- Ha az elérhető összeget maximalizálni szeretné, akkor érdemesebb inkább a "puszta tulajdon" értékesítése mellet dönteni.
- Ha kisebb összegekre van szüksége, a legjobb választás nyugdíja ötödének átruházása lehet.

HOGY KERÜLNEK VISSZATÉRÍTÉSRE A KÖLTSÉGEK?

- **Részletfizetés nélkül** A hitel nyújtása és visszafizetése egy összegben történik, hasznos, ha nagy összegre van szükség, kockázat vagy lejárati határidő nélkül..
- **Kamatfizetéssel** Kifizetés egy összegben, csak a kamatok visszafizetése történik rendszeres időközönként, az adósság növekedésének korlátozása érdekében.

MI A TEENDŐ?

- Forduljon bankjához tájékoztatásért.
- Vonja be családját.
- Készítsen közép- és hosszú távú finanszírozási igényeinek felméréséhez pénzügyi tervet.
- Keresse fel weboldalunkat.

MILYEN NAGYOK A KÖLTSÉGEK?

Kevésbé megterhelő, mint a személyi hitelek egyéb fő formái, és nem igényel rendszeres időközönként történő fizetést sem annak lejáratáig. A termék biztosítékot nyújt az örökösök számára is, akik az adósság összegét az ingatlan realizálható értékében korlátozzák. A szerződéshez kapcsolódó összes költséget a hitel finanszírozza. Az egyetlen megfizetendő költség a független szakértő az Ön lakóingatlanáról készített szakvéleményének költsége.

INFORMÁCIÓ:

- Látogasson el a következő weboldalakra:
  - EQUITY RELEASE PROJECT http://equity-release.eu/
- Konzultáljon XXX-el valamint további fogyasztóvédelmi szervezetekkel.

4.2 Dedicated Project website snapshots: www.equity-relaese.eu

The website https://www.equity-release.eu has material to help consumers and stakeholders better understand equity release schemes made available in three languages (English, German and Italian).

Figure 2 Starting Page

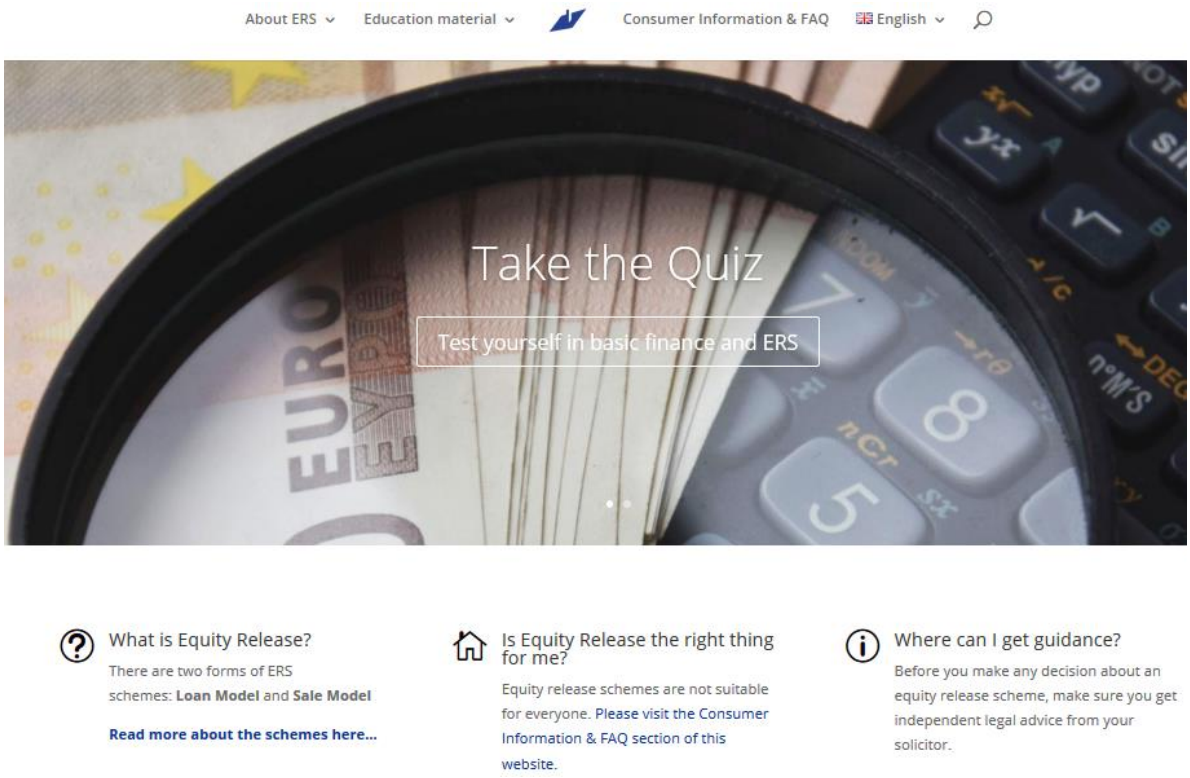
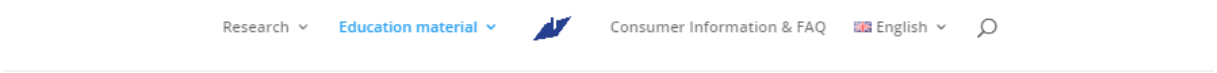


Figure 3 Basic information



Sale Model ERS – Home Reversion Schemes

Home Reversion schemes permit consumers to sell part of their home for a fixed price, which is usually at a greater discount than the actual value of the share of the home. Consumers do not borrow against the value of their homes, but are actually transferring (selling) part of their home and as such, they are not obliged to make any repayments. The borrowers continue to live in those homes for the rest of their lives and can use the cash for their household expenditure. With Home Reversion schemes, borrowers are usually provided with the money as a lump sum and are not allowed to withdraw in instalments.

In such schemes, a borrower has the option to choose between a fixed-share or variable share contract. Under the fixed share contract, the Home Reversion Company pays a lump sum to the borrower in exchange for a fixed share of the home. The percentage of the share remains fixed from the beginning to end, regardless of the life expectancy of the borrower or the value of the property in the future. Under a variable share contract, a borrower is paid a relatively higher lump sum when the stake in the home is initially sold, but the percentage share of the property owned by a home reversion firm automatically increases each year without the borrower receiving any more money. Therefore, this reduces a borrower's share in the property with the passage of time. Thus, the longer the borrower's life, the less of the property, he/she will own.

The table illustrates the advantages and drawbacks of home reversion schemes. One of the biggest drawbacks of such a scheme is that a borrower cannot change or exit from a home reversion contract on the grounds that the home has already been sold. However, borrowers may have an option to negotiate with the Home Reversion Company to buy back the share which was sold earlier, which allows the borrower to sell the home in the open marketplace. This would provide a borrower with a choice to cash in the value from one's ownership in the home. When the borrower dies, the similar option of buy back may be given to the beneficiary(ies) (CCPC, 2016).

Advantages	Drawbacks
A borrower can raise some cash by selling a stake in the home and can still continue to live in it without paying any rent.	The money, which is lent to a borrower will be considerably less than the market rate of the share in the property. The difference between the market value and the lump sum is the true cost of this product. If one does not live long, it may prove to be very expensive.
If property prices fall, a borrower will gain due to having received a cash based on the higher prices before a fall.	A borrower will not gain from the rise in the property prices. The home reversion company will get benefits from the rise in the value of its share.
It is not treated as a loan. Therefore, no repayments are required and no interest payments are made.	A borrower cannot use the home as a security again to get a further loan without the consent of the home reversion firm (co-owner).

5 Material used for methodology

5.1 Consumer Focus Group Guidelines

5.1.1 Practical information for carrying out the focus group discussions (prepared by TU Delft)

Introduction

This document gives some practical information on the focus groups that are part of work stream 3 (consumer side) of the project. The aim of the focus groups is threefold. First of all, they should provide insight into the general ideas that households have with regard to housing equity release and housing equity release products. Second, they should provide input for WS5 in which new equity release solutions will be developed. Third, one of the focus groups will be used to test how potential consumers react to the newly designed equity release product(s) that is/are the result of WS5.

An interview guide for the focus groups is provided in a separate document. In addition to this, we have also prepared a document with some supporting material (basic questionnaire, vignette, cards that should be filled in by the focus group participants).

Please note that the below practicalities refer to the first 2 focus groups that are carried out.

Decisions about the third focus group will be made in a later stage.

Composition of the focus groups

Although the focus groups are not intended to yield generalizable results, it is important that they have a balanced composition. All people that will participate in the focus groups should be older home owners (> 55 years) that have an interest in, and possibly some knowledge of, the topics of housing equity and pensions (otherwise they will not be willing to participate). Moreover, within this group of people there should be variation according to income (both lower and higher income people) in order to get as much variation in answers as possible. In addition to this, there should be some variation in terms of gender and household type (households with and households without children). Finally, we would advise to recruit all the focus groups participants in a housing market area with an average, relatively well-functioning housing market (e.g. an area in which houses are generally sold within a reasonable amount of time). In order to limit travel time and costs for the focus group participants, it is advisable to recruit people that live relatively close to the venue where the focus groups are held.

Practicalities of the focus groups

Organizing a focus group involves taking a lot of practical decisions. Below, we will deal with some practical elements of focus group research.

Recruitment of participants

We suggest to recruit the participants of the focus groups through consumer organisations, pension providers, interest groups for homeowners or interest groups for older people. If these organizations cannot deliver participants, it might be an idea to place an advertisement in a newspaper and/or on Internet.

Number of participants

Focus groups typically have between 6 and 12 participants. A large number of participants means more differentiation in answers and perspectives. However, it also gives less time to individual participants and it might be more intimidating for shy participants. Our proposal is to recruit 9 people for each focus group. Taking into account that some people might drop out in the last moment, we will then have at least 6/7 parti*c*ipants in each group. If there are national teams that want to make the groups bigger this is fine. Any number between 6 and 12 participants is acceptable.

Duration of the focus groups

Focus groups typically last between 1,5 and 2,5 hours. We expect that it will take between about 2 hours to discuss all the topics of our interview guide.

Breaks

In the interview guide, a break of 15 minutes is planned after one hour of focus group discussion. However, if you see that the participants get tired, you might want to insert one or two extra short breaks.

Venue of the focus groups

The focus groups should preferably take place at a neutral location that can be easily reached by both public and private transport. Limited catering facilities should be available so that the participants can be offered coffee/tea, soft drinks and some snacks. Other requirements:

- Availability of a device for writing down answers that are given by participants (whiteboard, laptop and beamer, smartboard).
- A table and seats that can accommodate both the moderators and the focus group participants.

The moderation of focus groups

We would advise you to have the focus groups moderated by 2 people: a moderator and an assistant-moderator (and possibly some back-up assistance if available). The moderator leads the discussion whereas the assistant-moderator carries out supporting tasks such as receiving the participants, serving snacks, switching on the electronic device, and writing down the answers of the participants on the whiteboard). If both the assistant and the moderator have experience in leading focus groups, they might switch roles during or between focus group sessions. Both the moderator and the assistant-moderator may play a role in preparing the focus groups (recruit of the participants) and reporting on the focus group results.

Financial compensation for participants

We feel that all participants should at least be compensated for the travel expenses that they have made. Furthermore, we would advise to give the respondents a small present at the end of the focus group, for example a book, some sweets, a gift card or a small amount of money. We leave it to the national teams to decide on what (if any) present is provided, and on how much that present might cost (this also depends on the national culture, the university regulations in the country concerned and the available budget).

Analysis of the focus group results

Transcription of the focus groups

The focus group discussion should be recorded by an electronic device (professional recording device or a good mobile phone) so that transcripts of session can be made. The transcript of the focus group is made in the language in which the focus group was carried out.

Analysis of the focus groups results

Based on the transcripts, each national team is requested to write a short report in English on the results of the focus sessions. This report should cover the different topics of the interview guide, and should use relevant quotations to illustrate how the participants really feel about particular topics. A format for this report will be provided by the TU Delft team in due course.

Using software to analyse the content of the focus group discussions

Content analysis software (such as Atlas.ti) may be used to analyse the content of the focus group discussion. We leave it to the national teams to decide on if they want to use this software, and if so, what software package they prefer to use.

Writing an international comparative article

Based on the short reports of the various national teams, an international comparative article on consumers' perceptions and strategies with regard to housing equity release will be written. The Delft team will take the lead in writing this article.

Ethical issues and how to use quotations[10]

In our opinion, the most important ethical issue concerns the fact that the focus group participants should remain anonymous when reporting on the focus groups results. As Lee & Hume-Pratuch (2013) point out:

On the one hand all sources must provide retrievable data, yet, on the other hand ethical reporting requires that you prevent the reader from identifying the source of information. 'The value of protecting participants' confidentiality must always win out'. One can discuss data gathered from research participants, provided that neither the subject nor third parties of the subject (e.g., family members, employers) are identifiable. Strategies for the ethical use of data from research participants include the following:

a. referring to participants by identifiers other than their names, such as

- their roles (e.g., participant, doctor, patient);
- pseudonyms or nicknames;
- initials;

[10] The guidelines outlined in this Section have been largely copied from the European RE-Invest project.

- descriptive phrases;
- case numbers, or;
- letters of the alphabet.

b. altering certain participant characteristics in your discussion of the participants (e.g., make the characteristics more general, such as saying 'European' instead of 'French');

c. leaving out unimportant identifying details about the participant;

d. adding extraneous material to obscure case details.

One should choose the strategy that makes sense given the degree of confidentiality of information one must maintain and what details are important to relate to the reader. In employing these strategies it is essential that one doesn't change variables that would lead the reader to draw false conclusions related to the phenomena being described.

How to deal with quotations?

As Corden and Sainsbury (2006) point out there is a difference between the approach taken in discourse and narrative analysis, where the exact content of the verbal interaction is the material for analysis, and the approach in applied social research (such as this research project), where the general commitment to relatively little editing is often balanced against issues of readability, issues of confidentiality and ethical practice. Based on their findings we formulate the following guidelines for the editing, the format and the attributions of quotes of participants.

Editing

To enhance readability, the researcher can:

- do some re-punctuation.
- take out the 'ums' and 'ers', phrases such as 'I mean' and 'you know', and the word repetitions which pepper most people's speech.
- Remark: the researcher can leave in verbal hesitations which are important for the analysis. However, this can be a 'subjective decision'.

For purposes of confidentiality, the researcher can replace some names or other identifying material with a general or explanatory term within square brackets.

Concerning spoken words that might seem very different in comparison with the author's prose and/or the way other respondents speak (e.g. regional dialects, speech patterns among ethnic minority groups, or speech affected by impairments or health conditions), there is a general commitment to being as inclusive as possible. However, there can be a fine balance between not excluding some people's words and not doing people a disservice. A possible way out here is to make decisions to fit individual circumstances and ask participants how they would like the researcher to deal with this. Having the transcripts of the focus groups checked by the participants can also play a role in this respect.

Format

There is a range of different ways of setting out verbatim quotations on the page. Important is that there is a clear distinction for the reader between the author's narrative and the verbatim quotations. A traditional format that is readily recognised by readers:

- using italicised type;
- replacing phrases taken out by three dots between brackets (cf. the kinds of repetitions referred to in the editing section).

Having the Focus Group results checked by the participants

We feel that the focus group respondents should have the opportunity to read the transcripts (or at least the summaries of the focus groups discussions), so that they can check whether their ideas and perceptions are described and/or quoted in the right way.

Other ethical issues

We leave it to the national teams to decide on whether they want the focus group participants and researchers to sign a consent form.

5.1.2 Interview guide for the first two focus groups

- A tentative accumulative time schedule (in red) is shown before each of the topics under discussion
- Instructions for the assistant moderator are shown in *Italics*
- During the focus group discussion, the participants have to fill in some cards and a short questionnaire. The formats for these cards and the questionnaire are provided in a separate document.
- Use name cards and ask all the participants to write their name on these cards before you start the focus group discussion

<u>0-5 minutes: Introduction</u>

We welcome you all and warmly express our gratitude for your participation in this focus group meeting. My name is …… and this is…….. We both work at the University of…….

We are here today to talks about the topics of housing equity and retirement income. This focus group discussion is a part of a bigger research project funded by the European Commission. Focus groups like this one will be carried out in the following six countries: Germany, United Kingdom, Ireland, Italy, Hungary and the Netherlands. In each of these countries, three focus group discussions are planned.

The aim of the focus groups is to find out how you think, and what you know of, so-called equity release products. Equity release products are financial products that allow you to release the equity that is accumulated in your house so that you can for example use it as a supplement to your retirement income. One of the goals of the research project is to design a product that combines housing equity and pension savings. Thus, you buy a home when you are relatively young and you pay off your mortgage during your working life so that you accumulate equity in your dwelling. After your retirement, the financial product would allow you to gradually release this equity as a supplement to your pension, whereas you can continue to live in your dwelling. During the focus group discussion, we will try to find out how you feel about such a product, as well as about other methods that can be used to release housing equity.

As you might be aware, a focus group discussion is an informal discussion about your views, experiences, concerns, desires etc. with respect to the subject matter. We would appreciate it if all contributors participate with enthusiasm. We would also like to ask you to respect each other opinions and to let the other participants finish their sentence before you interrupt. The discussion will be very hard to follow for us if two or more persons speak at the same time.

My role is to moderate the discussion. I am not here to give you my own opinion. Your perceptions are what matter. There are no right or wrong answers. I would like you to say what you honestly think. You may disagree with each other, and you can change your mind anytime you wish.

In order to be able to properly analyse the focus group results, the focus group discussion will be recorded with the help of an electronic device. Based on this recording, we will make a written transcript. This transcript without your full name can be sent to you for approval once it is ready, so that you can check whether your responses and ideas have been transcribed in a correct way. Based on the transcript we, as researchers, will write a research report. In this research report, all participants will remain anonymous.

5-15 minutes: Presentation, current housing situation and meaning of home-ownership

[To all participants] In turn, please briefly introduce yourselves and explain why you are interested in the topic of this focus group: the relationship between housing equity and retirement income, and then please provide some answers about your current housing situation by answering these 3 questions here.

Assistant-moderator: show the questions underneath on computer or white board/flipchart.

- What were the reasons for *buying* a house/flat instead of renting it

- How did you finance the purchase/building costs of your flat/ house?
    1. Did you take out a mortgage for financing the house?
    2. What percentage of the price of the house did you pay with the help of a mortgage?
    3. How did you pay the rest of the house price?
- Do you own any other properties? If yes, what are the reasons for this?

15-30 minutes: Pensions and retirement income

Most of you are already retired and will have a pension or some other source of retirement income. In order to get a good overview of the different sources of income that you have I would like to ask you to fill in a card.

Assistant-moderator hands out the cards.

On the card that has just been handed out you can find various sources of income. Could you indicate if you have one or more of these sources of income? And could you rank all the forms of retirement income that you have in terms of importance. Please note that not all forms of retirement income involve cash transfer. For example owning a home without a mortgage does not involve a cash transfer but it does mean that your housing costs will be low compared to people who still pay a mortgage or are renting. I am similar vein, family can provide in-cash transfers but also help in kind (for example taking care of children or older and/or sick family members).

Card 1

	Y/N	Ranking of importance of the source of income
State pension		

Occupational pension		
Private pension insurance		
Housing (the house you live in)		
Family (financial support or in-kind support)		
Other properties (rental income)		
Social benefits (e.g. social assistance, unemployment benefits, housing allowance)		
Other assets, ……..		

Assistant moderator collects the cards and writes down the answers for all the participants on a whiteboard (a format for this should preferably be prepared before the focus groups starts).

Based on what is written on the white-board, a discussion on pensions and retirement income starts:

- When you think back to when you purchased your property, how did you imagine or picture your life in retirement?
- How is your household income now compared to your income when you were working? Have you sold any assets in order to increase your income?
- Are you happy with your current retirement income (compared to what you expected)? Is it sufficient to live a decent life?
- How do you expect your retirement income will develop (measured against inflation). Why do you expect this development?
- [If various people have given a relatively high rank to family] How does your family contribute to your retirement income?
- [If various people have given a relatively high rank to housing] Why do you see your house as a form of retirement income?

30- 60 minutes: The role of housing equity

Assistant-moderator distributes the vignette and the ranking card.

The participants are asked to read the vignette and fill in the ranking card.

Vignette

An older retired couple (age around 70) without children lives in an a rather new and well-maintained three-bedroom detached dwelling in a medium-sized town. They are outright owners (they have already paid off the mortgage). The couple is having financial problems; their retirement income is insufficient to meet their expenses. Therefore, they are thinking of releasing part of their housing equity in order to get extra income. As far as this is concerned, they consider the following five options:

- Sell the house and move to a rental dwelling;

- Sell the house and move to a smaller home ownership dwelling;
- Sell the house and rent it back (sale- and lease-back);
- Stay in the house and use a financial product to extract the housing equity;
- Letting out a part of their dwelling.

Could you indicate, by filling in the ranking card, which option you would first advise, which second, etc…

Option	**Ranking**
Sell the house and move to a rental dwelling	
Sell the house and move to a smaller home ownership dwelling	
Sell the house but stay by renting it back against a commercial rent (sale- and lease-back)	
Stay in the house and use a financial mortgage-related product to extract the housing equity.	
Let out part of the dwelling	

Assistant-moderator distributes the vignette and the ranking cards. Once all the participants have filled in their ranking card, the cards are collected by the assistant-moderator (the participants should keep the vignette). The assistant moderator subsequently writes down the ranking results on the white board (prepare the format for this before the focus group starts).

Moderator summarizes the ranking of the options and asks the participants to explain their choices. What are the reasons for the ranking that has resulted? Subsequently, he/she explores different scenarios. Would the ranking be different if (all other conditions being equal as described in the vignette):

- The dwelling of the couple would be old and in urgent need of maintenance
- The couple would have two adult children, one of them being unemployed
- The couple would not have financial problems but would like to release housing equity in order to be able to pay for extended holidays

After the exploration of the different scenarios, the pros and cons of the various options to release housing equity are discussed.

As far is this is concerned, the following questions can be asked:

- Which of the options is most attractive in financial terms? Why is this the case?
- Is there sufficient supply of rental dwellings available? Idem for smaller home ownership dwellings.
- Will it be easy for the people in the vignette to sell their house?
- How important is it for older people to be able to stay in their current house until they die?

Final question:

- Would you consider yourself to use one the four options under discussion here? If so, which of the options has your preference and why?

60-75 minutes break

Give people the possibility to go to the toilet. Serve some drinks or snacks. Allow time for some to have a cigarette.

Introduction to the second part of the focus group discussion

Before the break we have discussed various options to release housing equity. In the second part of this group discussion we will focus specifically on equity release products. These are financial products that allow you to release housing equity, while at the same time they allow you to stay in your dwelling until you die. In the coming hour, we will discuss these products in more detail. But before we do so, I briefly want pay attention to the role of the family and the phenomenon of inheritance. After all, using housing equity release products implies that the heritance for the children will be smaller.

75-85 minutes: the role of the family and the obligation to bequeath

- How do you think of this topic ? How important is it for you to leave an inheritance?
- What do you plan to leave to your children?
- To what extent is your desire to leave an inheritance to your children a reason for not releasing housing equity and spending the proceeds of this?

85-95 minutes: Experience with/knowledge of housing equity release products

Housing equity release products are financial products that allow you to extract equity from your dwelling. They can be sophisticated products, such as reversed mortgages, in which you slowly increase the mortgage on your dwelling in exchange for a monthly cash transfer. However, housing equity release is also possible by taking a second mortgage on your dwelling and use the proceeds for consumption purposes.

- Do any of you use, or have you used, housing equity release products or second mortgages?

If so:

1. What product have you used
2. What was your experience with this product?
3. How did you find information on this product?

- Do you know which equity release products are currently available in the market?
- Where would you look for information on the available housing equity release products?

95-105 minutes: The relationship between housing equity and pension provision

As I have already indicated in my introduction, the goal of this research project is to design a financial product that combines housing equity and pension provision over the life cycle. Thus, you buy a home when you are relatively young and you pay off your mortgage during your working life so that you accumulate equity in your dwelling. After your retirement, the newly developed financial product would allow you to gradually release this equity as a supplement to your pension, whereas you can continue to live in your dwelling. When you die, the dwelling will be inherited by your children. However, the equity that is accumulated in the dwelling will have diminished as a result of the equity release construction.

- Do you think there will be an interest in, or need for, such a comprehensive lifelong product (starting with mortgage repayment and finishing with housing equity release)? If so, for which group of people will this product be interesting?
- What are the necessary conditions for ERS-schemes to be successful and to be attractive for you as a consumer? What should be the role of the providers of products? And what should be the role of the government and the regulators?
- The product that we are thinking of provides a monthly supplement to the retirement income. However, there are also equity release products that provide a one-off lump sum payment. What would you see as the most attractive option? Why?

105-115 minutes: The providers of housing equity release products

The product that we have just discussed can be provided by different types of providers: banks, commercial companies, insurance companies, occupational pension funds or the government. Could you indicate with a grade from 1 to 10 how much trust you have in each of these potential providers?

The assistant moderator hands out the cards and collects them again once they are filled in. The assistant moderator writes down the various rankings that are given on the whiteboard (a format for this should be prepared before the focus group starts).

Provider	**Grade**
Banks	
Commercial companies	
Insurance companies	
Occupational pension funds	
Government	

Discuss the main differences between the providers and try to find out why some providers are more trusted than others.

115-122 minutes: Last round of comments

We have now reached the end of this focus group discussion. I want to give everyone the opportunity to make some last comments. Is there something that didn't come up in the discussion but that you would like to share with us? If you have questions for us as researchers we would also like to hear them (give everyone the chance to answer these last questions)

122-125 minutes: Basic questionnaire

Before I say goodbye to you, I would like to ask you to fill in a short questionnaire in which we ask some background information about yourself. This information is useful for us when we are going to analyse the focus group results.

Ask all the participants to fill in the basic questionnaire.

The assistant moderator distributes the questionnaires and collects them when they are filled in.

125-130 minutes: Farewell

Thank you very much for participating in this focus group discussion. I think it has been a very interesting and fruitful discussion. In the coming weeks, we will make a transcript of

the discussion. Once this transcript is ready, we will send it to you by E-mail so that you can check if we have registered your answers in a correct way. As a token of our thanks, we have a small gift for you (or some money) (only if applicable in the country concerned). If you would like to have a compensation for your travel expenses, we would request you to fill a form that we have designed for this purpose.

Assistant-moderator hands out the gift and the travel expenses form.

Basic questionnaire with background information

Name	
Age	
Household type	A. 1 person B. Couple with at least one child living at home C. Couple with children that all live elsewhere D. One parent family with at least one child living at home E. One parent family with children that all live elsewhere F. Other,……..
Place of residence	
Type of dwelling	A. Detached or semi-detached dwelling B. Terraced dwelling C. Apartment D. Other……
Estimated value of the dwelling	
Current amount of the mortgage	
(former) profession	
Household income	

	A. Below average (lower income) B. About average C. Above average (higher income) D. Do not want to say
E-mail address	
Do you want to receive the transcript or a summary of the focus group discussion?	A. Yes, I want to receive the complete transcript of the focus group discussion B. Yes, I want to receive a summary of the focus group discussion C. No
Would you be willing to participate in a possible follow-up focus group discussion about this topic?	A. Yes B. No

5.1.3 Guidelines and interview guide for Focus Group 3

Practical and organizational aspects of the third focus group meeting

Topics to be discussed in the third focus group meeting

The goal of focus group 3 is to test how consumers think of different features of ERS solutions.

Even though the participating consumers might have some basic knowledge on ERS, the challenge will be to provide them with information and questions in a non-technical and attractive way. Based on all the research that we have already carried out, we see six topics for the focus groups discussion.

1. General introduction
2. Presentation of the findings of the research project so far.
3. Preferences towards current ERS-models (loan versus sale model)
4. Aspects of awareness, transparency, trustworthiness and regulation
5. Alternative ERS-solutions
6. Closing

Focus group composition

The idea is to invite people that also participated in the first 2 focus groups. It is important to have some spread with regard to age, gender and income. It is advised to invite about

10 people. Chances are that one or 2 persons won't show up and that we end up with 8 to 9 people, which is a suitable group size for the focus group discussion.

Topic 5, alternative ERS-solutions, is particularly relevant for the younger generations. Therefore, the focus group participants should approach this topic from the perspective of the current younger generations. The Irish team will also invite some younger people to their focus group and the other national teams may decide to do something similar (alternatively, the alternative ERS solutions may be informally discussed (outside the focus groups) with some younger colleagues or family members).

Venue

The venue of the focus group meeting should have the following requirements:

- Neutral location (preferably not at the premises of a provider);
- Easy to reach;

Duration of the focus group

Focus groups typically last between 1,5 and 2,5 hours. We expect that it will take between about 2 to 2,5 hours to discuss all the topics of our interview guide. In the interview guide, a break of 10 minutes is planned after about one hour of focus group discussion. However, if you see that the participants get tired, you might want to insert one or two extra short breaks.

The moderation of focus groups

We would advise you to have the focus groups moderated by 2 people: a moderator and an assistant-moderator (and possibly some back-up assistance if available). The moderator leads the discussion whereas the assistant-moderator carries out supporting tasks such as receiving the participants, serving drinks and snacks, switching on the electronic recording device, and writing down the answers of the participants on the whiteboard). If both the assistant-moderator and the moderator have experience in leading focus groups, they might switch roles during the focus group session. Both the moderator and the assistant-moderator may play a role in preparing the focus groups (recruitment of the participants) and reporting on the focus group results.

Financial compensation for participants

We feel that all participants should receive some compensation for the time spent and the (travel) expenses that they have made. Therefore, we would advise to give the respondents a small present at the end of the focus group, for example a book, some sweets, a gift card or a small amount of money. We leave it to the national teams to decide on what (if any) present is provided, and on how much that present might cost (this also depends on the national culture, the university regulations in the country concerned and the available budget).

Reporting

You are advised to record the complete focus group discussion on an audio or video device. Based on the recordings (or a transcript of these recordings), you are requested to write 10 page English summary that follows the structure of the interview guide. In this summary, you should use relevant quotations to illustrate how the participants really feel about particular topics. The summaries that were produced on the basis of the first two focus groups can serve as an example for this. Based on the focus group summaries, TU Delft (with assistance from the WS 5 leaders) will write a brief comparative overview that will be integrated in the final report of the project.

5.1.4 Focus Group 3 Interview Guide

- Instructions for the assistant moderator are shown in *Italics.*

- During the focus group discussion, the participants have to fill in some cards. The formats for these cards are integrated in the text.
- Use name cards and ask all the participants to write their name on these cards before you start the focus group discussion.
- You are advised to translate this interview guide into a Power Point Presentation (just as happened with the first 2 focus groups)

The structure of this focus group is as follows:

1. Introduction
2. Research findings so far
3. Preferences towards current ERS-models (loan versus sale)
4. Aspects of transparency, trustworthiness and regulation
5. Alternative ERS-solutions
6. Final remarks and next steps

1. Introduction (Duration: 5 minutes)

We welcome you all and warmly express our gratitude for your participation in this focus group meeting. My name is and this is ….. We are all working on this project. We are here today to discuss about residential property and retirement income. This focus group discussion is a follow up of two focus groups that were conducted last year. In the first two focus groups, we explored the cultural and financial perspective of releasing housing equity and the use of equity release products. Equity release products are financial products that allow you to release the equity that is accumulated in your house so that you can for example use it as a supplement to your retirement income.

We explained you that one of the goals of our research project is to design a product that combines housing equity and pension savings. In the last year we have been working hard on this topic. We have developed several alternative strategies. In this meeting, we want to discuss the pros and cons of the various ERS solutions. One of the main findings of our earlier focus group meeting was that there is little trust in the providers of ERS. In this meeting, we will discuss various options to possibly overcome this problem.

As you already know, a focus group discussion is an informal discussion about your views, experiences, concerns, desires etc. with respect to the subject matter. We would appreciate it if all contributors participate with enthusiasm. We would also like to ask you to respect each other opinions and to let the other participants finish their sentence before you interrupt. The discussion will be very hard to follow for us if two or more persons speak at the same time.

My role is to moderate the discussion. I am not here to give you my own opinion. Your perceptions are what matter. There are no right or wrong answers. I would like you to say what you honestly think. You may disagree with each other, and you can change your mind anytime you wish.

In order to be able to properly analyse the focus group results, the focus group discussion will be recorded with the help of an electronic device. Based on this recording, we will make a summary of the discussion. This summary will be sent to you for your approval once it is ready, so that you can check whether your responses and ideas have been transcribed in a correct way.

2. Findings of the research project so far (Duration: 10 minutes)

Largely based on his Hamburg presentation, TU Delft has prepared a Power Point Presentation in which the main findings of the first two focus groups are summarized A shortened version of this presentation can serve as a basis for this part of the focus group meeting (but of course, it has to be translated in the various national languages). After the presentation (5 minutes), some minutes should be reserved for taking questions of the focus group participants.

3. Preferences towards current ERS models (Duration:25 minutes)

Let us start with the brief explanation about what is ERS? ERS is a financial model which gives elderly homeowners an access to release cash from residential property. The cash can be received from financial institutions in return for either

i) A mortgage (the loan model)

ii) A sale of part ownership of the home (the sale model)

Both these products give a right of lifetime residency to the owner.

Loan Model

In the loan model, the Owner receives an advance (credit). The interest is either fixed or variable and it rolls up with the loan amount. This is called a 'Roll-up version'. In the other version called 'Interest-only lifetime mortgage', a borrower gets an opportunity to pay interest on the loan each month at a fixed or variable rate. Therefore, the principal amount does not change over the term of the mortgage and the repayment may appear manageable. When the borrower leaves the property, the outstanding loan is repaid from either the sale proceeds or by the heirs from his/her own financial sources. This is also popularly known as 'life-time mortgage'.

Sale Model

In the sale model, The owner receives a sum for disposing (selling) of all or part of the property. The Owner's estate and the financial institution divide the eventual sale proceeds based on the % each has of the property. This is also popularly known as 'home-reversion scheme'.

Based on the explanations, I/We would like to ask you some questions which will help us determine your preferences with regards to ERS.

- As the loan model gives a full ownership over the dwelling unlike sale model, how important it is to continue to have such rights over the home.

Next, we would like to know your opinion on end-use of the funds (cash) released from ERS products.

- Assume that you avail one of such ERS products, in what proportion you would like to spend your released home equity.

We will now hand out a card and would like you to rank your preferences (*Assistant-moderator hands out the card.)*

Card

Options for utilising home equity	**Priority Rank**
Day to day expenditure such as grocery, utility bills	
Medical expenses	
Help family members	
Leisure / holidays (vacation, camper, second home etc.)	

Any other purpose	

(Rank 1= highest proportion, Rank 5= lowest proportion)

Assistant moderator collects the cards and writes down the answers for all the participants on a whiteboard or on the computer (a format for this should preferably be prepared before the focus groups starts).

What should a good ERS-product look like?

In order to understand the features of good ERS product, we look at the guidelines given by the UK equity release council. Members of the UK equity release council must follow these safeguards which we will ask you to rank after.

Product standards

- For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a "cap" (upper limit) which is fixed for the life of the loan
- You must have the right to remain in your property for life or until you need to move into long-term care
- The product must have a "no negative equity guarantee". This means that when your property is sold, and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.

Independent legal advice (this may be skipped in countries where it is not applicable)

- You may choose your own solicitor to carry out the legal work in connection with your plan. Before the plan is completed, your solicitor will be provided with full details of the plan, including the rights and obligations of both parties (you and your product provider) under the contract, should you choose to go ahead.

Information about and explanation of your equity release plan

- You will be provided with a fair, simple and complete presentation and explanation of your equity release plan. You will be given information about:
    - all the costs that you will have to bear in setting up the plan;
    - the tax implications;
    - what will happen if you wish to move to another property; and
    - how changes in house values may affect your plan.
    - The product must be suitable for your needs based on the provider's knowledge of you and your circumstances.

Now we will distribute the card for you to rate the above safeguards.

Card:

Standards	**Rating**
a) Fixed interest rate	
b) Variable but capped rate of interest	
c) Right to tenure	
d) No negative equity guarantee	

e) To be able to choose your own solicitor	
f) Fair and simple illustration of your plan	
g) Information of all costs involved and who will bear them	
h) Tax implications	
i) Early repayment options	
j) Flexibility to move homes	

Rating	**Interpretation**
1	Extremely important
2	Fairly important
3	Not so important
4	Not important at all

Additional questions:

- What should be a reasonable difference in interest rates of ordinary mortgage (3.44%) and that of ERS-products, given that there are no interest payments and there is no risk of owing money at the end of the product?
- Do you think there should be some fiscal incentive (for example a tax exemption) for people who use ERS products?

4. Awareness/trustworthiness (Duration: 20 minutes)

The first two focus groups have shown that older home owners have little awareness of the possibilities of using residential property to supplement retirement income. Particularly the various financial products (ERS) that can be used for this purpose have been relatively unknown. However, compared to the other options of releasing housing equity (downsizing, selling and moving to a rental dwelling), the advantage of ERS is that one can continue to live in the one's own dwelling. In order to overcome the lack of awareness on ERS solutions, an information campaign could be started. The earlier focus groups have shown that information on ERS should preferably be provided by an objective organization such as the government, a consumer organization or a regulator. However, we would like to understand what are the effective ways for an information campaign?

Some ways of raising awareness about equity release schemes include TV and print ads, brochures, a website, social media and face to face discussion regarding pensions and property with qualified staff

- Which of these would matter most for you?
- Would awareness enhance trust?
- Why do you think it is important/not important to raise awareness about the possibilities of releasing housing equity with the help of ERS?

- Do you see any point in involving the State to build trust and establish the reliability of equity release product? Or is it better to leave this to the market itself? For instance rely on the work of the Equity Release Council.

Break: 10 minutes

5. Alternative ERS-solutions (Product models) (Duration: 45 minutes)

In this part of the meeting we want to discuss with you a number of product models and ask you to evaluate them. In particular, we would like your opinion on the features of these products by way of filling out the cards given for each product.

Models (Product proposals)

1. Lifetime Lease with parallel pension plans – The proposed solution is a combination of a lifetime lease and private pension provision. It is based on a contractual arrangement which binds the household in lifetime lease and later provides them with private pension. The customer pays a certain share of his/her income each month to a financial institution. Certain amount of tax exemption (depending on government budget and fiscal policy) may be given for such contributions. Part of this amount is considered as a (lower than market) rent (which is feasible due to lifelong commitment) and rest amount is invested in a designated pension fund. On retirement, a customer continues to live in the house with rents and pensions both paid from the accumulated fund. The primary advantage of such product is that the customer will not bear the house price risk (as no ownership is involved) and will not need to purchase ERS in the later life. The other advantage is that of cost reduction compared to short-term letting and investing in a pension fund separately.

		Disagree		**Neither**	**Agree**	
		Strongly	**Moderately**		**Moderately**	**Strongly**
	Question	**1**	**2**	**3**	**4**	**5**
1	A lifetime lease would be attractive to young people on low incomes that can't manage (or don't want to manage) a mortgage					
2	A lifetime lease will mean rents lower than the market rate.					
3	This product would be attractive to those on low incomes					
4	The government would be keen to					

	subsidize this type of arrangement.					
5	It doesn't matter that the customer does not share in house price appreciation.					

2. Integrating a traditional mortgage and lifetime mortgage into one product – The way this model works is that the customer buys an integrated mortgage and equity release product. The government provides tax relief on all mortgage payments. This tax relief is saved into a retirement pot on behalf of the customer. On retirement the customer draws on this pot as a lump sum or annuity. In addition, the customer enters into an equity release scheme (lifetime mortgage). Therefore, the total income generated is a sum of the income drawn from the accumulated (tax relief) fund and the home equity released through an ERS.

		Disagree		**Neither**	**Agree**	
		Strongly	**Moderately**		**Moderately**	**Strongly**
	Question	**1**	**2**	**3**	**4**	**5**
1	This product would be attractive to first-time buyers.					
2	Young people need help with home buying.					
3	Young people need help with saving for their retirement					
4	A commitment to using their home to support their retirement is too much for a young home buyer.					
5	I think mortgages and retirement saving should be kept separate.					

3. Collective house purchase and later sold back to collective entity – The target customers for these products are those who just have enough money to pay for the use of their homes, but unable to own them. The customer can invest in a close-ended real estate fund (a financial institution) to accumulate the capital for home ownership. The fund rents out primarily to shareholders and provides with flexible rights to resident. Such rights could gradually develop into ownership rights. The main benefits of such type of product are that the customer could eventually own the same home, which is rented out initially and can also partially benefit from house inflation without owning it.

		Disagree		**Neither**	**Agree**	
		Strongly	**Moderately**		**Moderately**	**Strongly**
	Question	**1**	**2**	**3**	**4**	**5**
1	This product would be attractive to those on low incomes					
2	I like the idea of owning a share of a real estate fund instead of a house.					
3	I think this would work financially.					
4	As this approach relies on social cooperation it is likely to be successful.					
5	This is a good way to save for retirement.					

4. Mortgage payment for retirement income – The target customers are individuals and households who have repaid their mortgage , own their property and now can save more for their retirement. They pay some of their income now into a fund (pension) and this may be released either to service the interest on an equity release mortgage, thereby protecting their capital, or to simply enhance their retirement income if they do not take an equity release mortgage.

		Disagree		**Neither**	**Agree**	
		Strongly	**Moderately**		**Moderately**	**Strongly**
	Question	**1**	**2**	**3**	**4**	**5**

1	This product would be attractive to Middle-aged people on modest incomes..					
2	I like the flexibility of switching between housing and pensions.					
3	Housing and pensions should be treated the same way tax wise.					
4	People will pay high charges on small pension funds.					
5	People would have other uses for their cash after repaying their mortgage other than pensions like this.					

5. Government agency as an intermediary – This model is similar to the conventional ERS product. Homeowners take out an equity release scheme in the usual way but with a government agency as intermediary. The interest rate they repay is set by an administration charge plus a variable rate related to house price changes in their region. When house price inflation is high they will pay a high interest rate. When it is low they will pay a low interest rate but there will always be some minimum charge. There are several advantages to this arrangement. It should be easier to get funds to lend to customers since lending is now less risky. This should make the administration charge quite low meaning lower interest rates for the customer. Then as long as this charge is low and the customer's house value increases at the same rate as houses in their region, the amount of money to be repaid should grow only slighter quicker than the house value so there should be some housing equity left over to leave as a bequest.

		Disagree		**Neither**	**Agree**	
		Strongly	**Moderately**		**Moderately**	**Strongly**
	Question	**1**	**2**	**3**	**4**	**5**
1	Variable interest rates on equity release schemes would be OK					
2	My house value increases at the same					

	rate as other houses in ….					
3	I think there would be more money left as an inheritance with this product.					
4	I like that the government is involved in this product.					
5	Providers won't lower their interest rates even with this product.					

(It is advisable to either give the printed copy of all product descriptions or make them visible on large screen for participants to understand all the products thoroughly while ranking.)

The products (models) described above appeal to different age cohorts and income levels. The focus group participants are asked to evaluate them from the perspective of these different age and income groups.

6. Final remarks (Duration: 5 minutes)

We have now reached the end of this focus group discussion. I want to give everyone the opportunity to make some last comments. Is there something that didn't come up in the discussion but that you would like to share with us? If you have questions for us as researchers we would also like to hear them (give everyone the chance to answer these last questions).

Thank you very much for participating in this focus group discussion. I think it has been a very interesting and fruitful discussion. In the coming weeks, we will make a transcript of the discussion. Once this transcript is ready, we will send it to you by E-mail so that you can check if we have registered your answers in a correct way. As a token of our thanks, we have a small gift for you (or some money) (only if applicable in the country concerned).

5.2 List of national stakeholders involved in the research

The following table provides the list of institutions and persons that contributed insights to the project. We are grateful for their time and willingness to share their knowledge and views. In some member states, where for example no developed market exists and the knowledge base limited, these stakeholders kindly provided their opinion based on information provided to them. Some stakeholders such as the providers of ERS have also provided survey answers beyond email, oral and meeting-based communication and exchanges.

Table 11: Stakeholders forming the network of interested parties in Germany

Stakeholder type	**Institution**	**Contact person**

Bank	Investitionsbank Schleswig-Holstein	Axel Vogt
Bank	Sparkasse Pforzheim Calw	Michael Dietrich
Intermediary	VMT Consult GmbH, VMT Immofinanz	Fr. Binder
Intermediary	F&WR GmbH, Ruhestandsberatung	Gero Roesebeck
Intermediary	DEGIV – Die Gesellschaft für Immobilienverrentung	Özgün Imren
Intermediary	Deutsche Immobilien & Beteiligungs GmbH	Markus Bischoff
NGO serving user interests	Eigenheimverband Bayern e.V.	Martina Wesseling
NGO serving user interests	Bundesverband Initiative 50Plus	Uwe-Matthias Müller
NGO serving user interests	VZ Bremen	Hartmut Schwarz
Provider (Non-bank, non-insurer)	Deutsche Leibrenten AG	Friedrich Thiele
Provider (Non-bank, non-insurer)	Stiftung Liebenau	Christoph Sedlmeier
Provider (Non-bank, non-insurer)	DGR - Deutsche Grundstücksrente GmbH	Klaus Secker
Provider (Non-bank, non-insurer)	Initium AG	Steffen Schiefer

Note: These stakeholders provided answers to interviews and/or surveys throughout the years 2016 and 2017.

Table 2 - Stakeholders forming the network of interested parties in Ireland

Stakeholder type	**Institution**
Regulator	Pensions Authority
Regulator	Central Bank of Ireland
Insurance & pensions supplier	Irish Life
Insurance & pensions supplier	New Ireland
ERS Provider	Seniors Money
Trade Association	Insurance Ireland
Tax Authority	Revenue Commissioners

Government Department	Department of Finance & Public Expenditure
Government Department	Department of Social Protection
Research	Economic & Social Research Institute
Government Agency	Residential Tenancies Board
Consumer advocacy	National Federation of Pensioner Associations
Research group	Pension Policy Research Group
Trade Association	European Pension Property Asset Release Group
Retirees Group	Probus

Irish Stakeholders were provided with assurances regarding confidentiality as a condition for meaningful and frank exchanges in the course of the research. Thus the names of the individuals involved shall remain private.

Table 3 - Stakeholders forming the network of interested parties in Italy

Stakeholder type	**Institution**	**Contact person**
Bank	Unicredit	Anna Giordano
Bank	MPS- Monte dei Paschi di Siena	Davide Vivaldi
Bank	Intesa-San Paolo	Pierluigi Monceri, Marco Iacovissi
Bank	Banca Popolare di Sondrio	Stefano Marziale
Regulator	Bank of Italy	Giovanni Guazzarrotti
Legislator	Parliament of Italy	Marco Causi
Research		Aurelio Valente
NGO serving user interests	ABI-Associazione Bancari Italiana	Raimondo Lucariello
NGO serving user interests	Confconsumatori	Mara Colla
NGO serving user interests	Adiconsum	Carlo Piarulli
Provider (Non-bank, non-insurer)	First Online	Franco Locatelli
Provider (Non-bank, non-insurer)	ANIA- Associazione Nazionale Assicuratori	Dario Focarelli

Note: These stakeholders provided answers to focus groups, interviews and/or surveys throughout the years 2016 and 2017.

Table 4 - Stakeholders forming the network of interested parties in the Netherlands

Stakeholder type	**Institution**	**Contact person**
Intermediary	CMS franchise	Martin Hagedoorn
Consumer organization	Consumentenbond	Barbara van der Est
Provider	Thuisborg Finance	Hans Franke
Provider	Senioren Hypotheek Garantie	Rutger Go
Provider	Senioren Hypotheek Garantie	Raj Sing
Provider	Rabobank	Christian Lennartz
Provider	ABN AMRO	Habib Bouchar
NGO in the field of household finance	NIBUD	Marcel Warnaar
Insurance company	General Reinsurance AG	Bernhard Wolters
Provider	BNP Paribas Personal Finance	Alexander Paklons
Government	Ministry of Internal Affairs	Peter Simonse
Consumer organization	Vereniging Eigen Huis	Nico Stolwijk

Note: The majority of these stakeholders was present at the stakeholders meeting organized by TU Delft on September 21, 2017.

Table 6: Stakeholders forming the network of interested parties in Hungary

Stakeholder type	**Institution**	**Contact person**
Supervisory body	Hungarian Central Bank	Koppány Nagy
Insurer	Aliance of Hungarian Insurance Companies (Magyar Biztosítók Szövetsége (MABISZ))	Ramón Farkas
(Ex) ERS provider	OTP Life Annuity	Imre Hild (Ex-founding CEO of Otp Life Annuity)

(Ex)ERS provider (Non-bank, non-insurer)	Municipality of Zugló, 14th District of Budapest	Hajnalka Selyem
(Ex) ERS provider (Non-bank, non-insurer)	Municipality of Kispest (Budapest 19th District) - Assets Utilization and City Operation Office	Zoltán Oroszki
NGO serving user interests (Retirees Association)	"Fill Years with Life" Association of Pensioners' Clubs and of Elderly People of Budapest	Zsuzsanna Borbély
NGO serving user interests	Social Innovation Fundation	Katalin Talyigás
NGO serving user interests	"European Comrades in Need" (Európai Sorstársak Khe.)	Erzsébet Török-Szabó
Research Institute	Metropolitan Research Institute	János Hegedűs
Service provider (social services linked to ERS)	Europ Assistance	László Kalmár

Note: These stakeholders provided inputs during focus group discussions, meetings and personal interviews throughout the years 2016 and 2017.

5.3 Interview guideline for meeting with stakeholders – UK example

Queen's University Belfast
MANAGEMENT SCHOOL

The Equity Release Scheme Market in the UK – What does it lack and what is to follow?

The study is a part of a European Commission project on using housing capital to support pensions in old age (VP/2014/014). It is in collaboration with six European universities (Germany, Republic of Ireland, Netherlands, Italy and Hungary) and Queen's University Belfast is representing the UK. The project is in two strands. While the first strand focusses on private pensions and the current issues around them, the second strand is dealing with identifying the role of housing in retirement. We are a part of the latter.

This document lists out the questions we seek to have answered. The motivation for these questions comes from our understanding of the market, the existing literature on equity release products and an analysis of the transcripts from our previous interactions with consumers.

Questions:

1. The equity release scheme (ERS) market in the UK represents half a percent of the entire mortgage market. Only 1% of the over 55-homeowners uses the product. Why do you think the market is so small?

2. What are the main barriers to the development of the equity release market? Are there any risks involved in offering equity release products?

3. From our interaction with potential and existing ERS customers, we observed that equity release products have a negative reputation. We noticed people do not seem to trust equity release products and have a limited knowledge of them. What do you think should be done to tackle these issues?

4. To what extent can mandatory financial advice be useful in supporting good and fair decision making for those who consider buying ERS? How does your organisation ensure that people receive fair and accurate advice?

5. The FCA commented, "*From a regulator's perspective - are there barriers to competition or even missing markets? We believe there is a debate to be had about what products, markets could exist, and whether more entrants and innovation here might benefit consumers with greater choice and improved products.*" What could be the reasons for the lack of competition and innovation in the ERS market? What should the FCA be doing for the growth of this market?

6. The most recent report from the Equity Release Council indicates that maturing interest-only mortgages are going to drive the demand for ERS in the future. Do you agree with this? Is the pattern of the consumer demand changing?

7. Our understanding is that the no negative equity guarantee (NNEG) clause attached to the product leads to a small loan to value ratio. Can something be done about that? Is there a role for the government here?

Questions 8 and 9 describe two models for releasing home equity. These models are motivated by the shortcomings identified in existing equity release products.

8. **Government agency as an intermediary** (Andrews and Oberoi, 2015)[1] – Here, a government agency acts as an intermediary between the borrower and the lender. Homeowners take out an equity release scheme in the usual way. The interest rate that they repay is a sum of an administration charge and a variable rate. The variable rate is linked to a regional house price inflation index. This would imply that when house price inflation is high, borrowers will pay a high interest rate. When it is low they will pay a low interest rate but there will always be some minimum charge. A key advantage of this arrangement is that it would make easier to attract funding to the market as lending would become less risky. This would further reduce the administrative charge thereby reducing interest rates for customers. Therefore, as long as this charge is low and the customer's house value increases at the same rate as houses in their region, the amount of money to be repaid should grow only slighter quicker than the house value so there should be some housing equity left over to leave as a bequest.

   Do you see any merit in this model?

9. **Integrating a traditional mortgage and lifetime mortgage into one product** – This model is a combination of a mortgage and an equity release product. It assumes that individuals receive a tax relief on their initial mortgage payments. This relief accumulates to a pot of money, as in a standard pension system, which can be drawn from, either as a tax-free lump sum (up to 25% of the fund value) or as an annuity, once the person reaches his/her normal state pension age (SPA). At SPA, the individual can enter in to an ERS, similar to a standard lump sum mortgage product. Therefore, the total income generated is a sum of the income drawn from the accumulated (tax relief) fund and the home equity released through an ERS.

   Is there any mileage in this model? Is there any benefit of integrating mortgage and ERS products?

10. Can there be any other forms of government intervention in the ERS market?

11. Where do you see this market going? How important is it going to be with respect to an ageing population, lower state pension levels in the future and the increasing demand for social care funding?

1 Andrews, D. and Oberoi, J. (2015). Home equity release for long-term care financing: an improved market structure and pricing approach. Annals of Actuarial Science, 9(1), pp.85-107.

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5.4 Annex: Survey questionnaires used for the research

5.4.1 ERS Provider questionnaire

A	Questionnaire for Equity Release Scheme (ERS) providers
Purpose	In the frame of a research project for the European Commission, we seek to collect information on **your products and insights** to understand the business proposition and how existing barriers to the development of ERS in your country and across Europe can be reduced so that housing asset conversion can better contribute to supplementing private personal pensions in retirement. Your answers and views will help us better understand the market for equity release schemes and to formulate policy suggestions that may support development and creation of solutions.
Project team	**Institute for financial services e.V. (*iff*)**, Hamburg (Germany, Dr. Dirk Ulbricht), together with AUB (Hungary), TUD (the Netherlands), QUB (UK), WIT (Ireland), LUMSA (Italy) and UROS (Germany).
Return to and contact person	Please complete this questionnaire by saving your answers and returning by email **Sebastien Clerc-Renaud** *iff* institut für finanzdienstleistungen e.V. Rödingsmarkt 31/33, 20459 Hamburg; Tel: +49 (0)40 30 96 91 24 Email: sebastien.clerc@iff-hamburg.de Please return **by 16 June 2017**
Data protection	Assured by *iff* through its data protection officer (Arne Mauri, arne.mauri@iff-hamburg.de). We will ensure confidentiality by not publishing or disclosing any individual organisations' information. Findings will be displayed in the final report in aggregated form only.
How to complete	☑ **Click** with your mouse or by using the space bar Select **Dropdown-Menus** - use arrow keys (↑,↓) or mouse. If you wish not to leave an answer, please leave the option "Select". **Text fields** - insert numbers or text (avoid use of semicolons or return key) Use the mouse or Tab key to navigate through the Answer fields (Shift + Tab). General comment fields are available for additional information and you may annex any material to your answers.
ERS definitions	We refer to **Loan Model ERS** for credit based schemes (reverse or lifetime mortgages), **Sale Model ERS** for schemes where all/part of the property is sold combined with a lifelong right of occupancy (home reversion plans), and **Sale and lease back** for arrangements that do not ensure permanency of residence.
Structure and sections of the questions	The questions are grouped under the following sections: 1. Your product offering (15 items)* 2. Eligibility and restrictions (11 items) 3. Payment and guarantees (7 items) 4. Termination, default and sale (6 items) 5. Risks (6 items) 6. Typical client characteristics (6 items) 7. Distribution and advice (5 items) 8. Outlook of the ERS market (6 items) * please complete a separate document for each of your products (if answers to the other sections are different please also complete those if not you will only need to complete all other parts once when you complete the answers for your first most dominant product.

Item	Question	Answer
	YOUR ORGANISATION	
0.1	Type of firm	Select
0.2	Nature of your involvement in the ERS market?	☐ Product manufacturer ☐ Property buyer ☐ Intermediary ☐ Adviser ☐ Other

1

Item	Question	Answer
	YOUR PRODUCT OFFERING - BY PRODUCT	*If you have more than 1 product, please complete a separate file for each different product. Start with your most prominent one. (Questions relating to all products can be completed only once in the first file)*
1.1	Which ERS do you offer and how many sales contracts have been sold to date?	*Overview for all products:* Loan Model / Sale Model / Sale and lease back Number of current product offerings Total number of ERS contracts sold (e.g. 500) of which that are still live
1.2	Product name	
1.3	How many of these ERS products have been sold in 2016?	By number: In Euro:
	Sale Model ERS	
1.4	Is a **sale** of the property part of the product contract?	☐ Yes, total sale only ☐ Yes, total or partial ☐ No *If No, please go to question number 1.7*
1.5	In the case of increase in the value of the property during the contract, does the customer benefit from this i.e. is the **appreciation shared**?	☐ Yes ☐ No ☐ Depends Details:
1.6	Please indicate the **typical size of fees** faced on a property with sales values of a €200,000	Upfront fee: Brokerage fee: Valuation fee: Other fees and details:
	Loan Model ERS product	
1.7	Which **product category** does this product fall under?	☐ Home income plan ☐ Interest only ☐ Roll-up ☐ Fixed repayment ☐ Shared appreciation ☐ Other Specify:
1.8	Are there strict floors and ceilings to the **loan amount** granted?	Nominal (EUR) / % of property value Minimum Select Maximum Select
1.9	Are **early repayments** allowed and at what cost (nominal fee and/or percent)?	☐ Yes ☐ No Details:
1.10	**Form of Interest rates**?	Fixed ☐ for entire lifetime ☐ for set number of years only Variable ☐ based on an index based on benchmark rate
1.11	Time of **servicing/payment**?	☐ Interest payments are made at termination and sale of property ☐ Interest payments can be made throughout the period ☐ Repayments of principal can be made throughout the period Details:
1.12	**Size of Interest rate** as of January 2017 on new business (in % p.a.)?	Nominal: APR:
1.13	What are the **other charges** separately recovered from a client? *(please give examples of upfront, brokerage, valuation, registration, or other fees for a typical loan/advance of €200,000)*	*List of charges (please describe in field)* EUR % of loan 1 2 3 4 Comments:

2

Item	Question	Answer
1.14	Do you offer a **choice** between higher product fees or higher interest rate?	☐ Yes ☐ No
1.15	Indicate the approximate size of your **total ERS loan book** for this product	By number In Euro:
	Additional comments:	
	ELIGIBILITY AND RESTRICTIONS	*(if the eligibility and selection decisions are NOT the same for all ERS you offer please specify for each product in each separate product file)*
2.1	Do you require a **minimum age** for the person contracting this ERS?	☐ Yes ☐ No If yes, please specify age floor and give details on who exactly is eligible (spouse, relatives):
2.2	Are there minimum or maximum **residence values** for ERS to be granted? (in EUR)	Minimum: Maximum:
2.3	What **type of property** is eligible? *(multiple answers possible)*	☐ Detached house ☐ Semi-detached house ☐ Apartment ☐ Terrace house ☐ Bungalow ☐ High-rise flat ☐ Other Please specify
2.4	What **forms of ownership** are also eligible?	☐ Condominiums ☐ Co-ownership ☐ Cooperative ☐ Other
2.5	What **factors** could lead to exclusion? *(multiple answers possible)*	☐ Year property was built ☐ Type of construction ☐ Time-share ☐ Leasehold tenure ☐ Room allocation ☐ Other: Please specify and indicate any factors leading to automatic exclusion:
2.6	Other **personal / financial factors** that are still eligible i.e. (client *can still qualify)*	☐ Existing first mortgage ☐ Bad credit history ☐ Unsecured loans outstanding ☐ Secured loans outstanding ☐ Foreign nationality ☐ Foreign residency ☐ Third person lives with the owner ☐ Other
2.7	Are there **tests and checks** required?	☐ Medical test ☐ Credit check ☐ Other
2.8	Is your ERS **marketed country-wide**?	☐ Yes ☐ No ☐ Also abroad If no, please specify the geographical restrictions and their reasoning:
2.9	**Who else** has to sign something before the conclusion of the contract?	☐ All persons living in the property ☐ Those dependent on applicant(s) Please specify:
2.10	What **uses of the property** are allowed by the consumer?	☐ Permanent residence ☐ Main residence ☐ Foreign occupied ☐ Private use only ☐ Holiday home ☐ Letting ☐ Subletting ☐ Commercial use ☐ Other (please specify):
2.11	Are there any controls on the **use of the funds**?	☐ Yes ☐ No
	Additional comments:	

3

Item	Question	Answer
	PAYMENT & GUARANTEES	
3.1	What **forms of payment** are available to the customer? *(multiple answers possible)*	☐ One-off cash lump sum ☐ Monthly income (fixed period) ☐ Monthly income (for lifetime) ☐ Line of credit Please specify any minimum amounts, frequency of draw-downs etc.:
3.2	Can the owner **reserve equity** for other purposes?	☐ Yes ☐ No ☐ Not applicable as Sale Model ERS If yes, specify up to what percent of sale value and conditions:
3.3	Can the **form of the payout** be changed on the customer's request during the lifetime of the contract?	☐ Yes ☐ No If yes, please explain:
3.4	Is there a **guarantee for lifetime occupancy**? *(Please list all factors that will cause the customer to lose this guarantee)*	☐ Yes ☐ No, contract is valid for a fixed number of years only Describe:
3.5	Which of the following **adaptations** are contractually allowed under special circumstances?	☐ Marriage ☐ Divorce ☐ Move to another property ☐ Other (specify):
3.6	Do you offer a **payment guarantee** period (in case of premature death)?	☐ Yes ☐ No If yes, please explain:
3.7	Is there a **guarantee scheme** in case your company should become insolvent?	☐ Yes ☐ No
	Additional comments:	
	TERMINATION, DEFAULT, SALE	
4.1	What factors can trigger **cancellation** of the contract when terms are not honoured?	☐ Inadequate property insurance ☐ Property left vacant ☐ Lack of repair and maintenance ☐ Unauthorised occupation ☐ Overdue payment ☐ Tax arrears ☐ Unauthorised sale ☐ Bankruptcy ☐ Other (specify):
4.2	Are there restrictions on eviction, foreclosure, debt collection after **cancellation**?	☐ Yes ☐ No Comments:
4.3	In the case of an ERS Sale Model, is there a possibility to **buy back** the property?	☐ Yes ☐ No ☐ Not applicable as Loan Model ERS If yes, what period is this granted for?
4.4	What proportion of your ERS has been **terminated** to date for the following reasons? (estimation) *(Please specify if for all ERS products)*	Death Select ▾ Move to long-term care Select ▾ Sale of property Select ▾ Move to unspecified location Select ▾ Voluntary early repayment Select ▾ Trigger of a default clause Select ▾ Other reasons Select ▾ Comments:

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Item	Question	Answer
4.5	**ERS** can be **transferred** to ...	☐ another person ☐ another object
4.6	Who is entitled to the **surplus** after repayment and what happens if there is a **deficit**?	Select
	Additional comments:	
	RISKS & PRICING	
5.1	How important are the following **risks for a provider** of ERS?	*Indicate importance on a scale of 1 (very low) to 5 (very high)* Longevity Select Interest rate Select House valuation Select Reputational Select Maturity mismatch Select Moral hazard affecting quality of property Select Ability to sell the property Select Other Select Explain and describe how you prevent, manage or cover these risks:
5.2	Do you offer a No Negative Equity Guarantee (**NNEG**)?	☐ Yes, always ☐ Yes, but it is optional ☐ No ☐ Not applicable as Sale Model ERS
5.3	How have you allowed for NNEG (i.e. built it into your pricing)?	☐ In the interest rate ☐ In the amount released ☐ Other Specify:
5.4	Is there **State or mutual help schemes** for such risks?	☐ Yes, public ☐ Yes, mutual ☐ Yes both ☐ None
5.5	What do you see as the **biggest challenge** or constraint for providers contemplating to enter the market?	*Indicate importance on a scale of 1 (very low) to 5 (very high)* Insufficient return obtainable (at average risk) Select Difficulty to hedge returns with excessive risk Select Difficulty to recoup large transaction costs Select Regulatory capital requirements Select Access to capital Select Degree of support from public policy Select Timing of cash inflows and outflows Select Property market expertise and/or diversified portfolio Select Marketing and distribution infrastructure Select Comments:

5

Item	Question	Answer
5.6	To what extent do you include the following **factors** in the scheme design approach adopted by your firm?	*Indicate relevance on a scale of 1 (very low) to 5 (very high)* Mortality Select Morbidity events requiring evacuation Select Family events (e.g. divorce) Select Work events (e.g. unemployment) Select Lapses in levels of property maintenance Select Interest rate volatility Select Regulatory requirements regarding valuation for solvency purposes Select No negative equity guarantee Select Option to repurchase Select Option to repay early Select Penalty clauses for repurchase or early repayment Select Other factors Select
	Additional comments:	
	CLIENT CHARACTERISTICS	
6.1	What is the typical **user profile** of your ERS customers?	Percentage of couples % Percentage of single persons % Percentage of female customers % Average age at conclusion of contract Age at termination of the contract Typical income level Select Own description:
6.2	Typical **contract profile**	Average duration of a contract (years, months) Typical payment amount in € Typical form of payout of disbursed funds Percent of equity released (% of property value) Details:
6.3	Typical home **location and value**	Value at termination in €: Inner City Select Suburb Select Countryside/rural Select
6.4	**Motivation** and use of the funds *(estimate based on the relative share for your customers)*	*Indicate prevalence on a scale of 1 (very low) to 5 (very high)* Extra income to cover day to day expenses Select Large purchases unrelated to the property Select Financial support for friends or family (gift or loan) Select Home renovations (general refurbishment) Select Home adaptation (modernisation, age-appropriate living) Select Second foreign residence Select Comments:

6

Item	Question	Answer
6.5	Have you or others undertaken **research** about consumer sentiment and attitudes to ERS?	☐ Yes own research ☐ Yes, research by other providers ☐ Yes, research by authorities ☐ Yes, research by academics ☐ No research exists
6.6	**Consumer risks**	*Indicate importance on a scale of 1 (very low) to 5 (very high)* Loss of home Select Family dispute over inheritance Select Temptation to invest funds for greater returns Select Depletion of assets too quickly Select Cheaper alternative available Select Unable to exit even if opportunity arose Select
	Additional comments:	
	DISTRIBUTION AND ADVICE	
7.1	Which cooperation **partners** are involved in your product sales?	☐ Insurer ☐ Provider ☐ Intermediary ☐ Financial adviser ☐ Surveyor ☐ Legal adviser or Notary ☐ Other
7.2	Describe the way the product is **marketed** by estimating the share of the following channels	☐ I am an intermediary not a product manufacturer Via affiliate Select Direct marketing (internet) Select Via intermediaries Select Other Select
7.3	What specific **pre-contractual advice or information** has to be provided? *(please add this material by e-mail)*	
7.4	Which of the following **checks** do you undertake when selling ERS?	☐ Implications with customer ☐ Implications with the family ☐ Advice on risks, features, benefits ☐ Alternative courses of action ☐ Physical health, care in later-life ☐ Mental health ☐ Other
7.5	Which of these **stages** in the business process do you find most challenging and costly?	*Indicate significance on a scale of 1 (very low) to 5 (very high)* — Level of challenge / Cost impact Marketing and seeking initial customer contact Select Select Selection and eligibility checks of interested customer Select Select Advice stage incl. alternatives, third party involvement etc. Select Select Evaluation of the property and finalising offer Select Select Contractual phase, payments, checks, etc. Select Select
	Additional comments:	
	OUTLOOK OF THE ERS MARKET	
8.1	How would you describe the **ERS market demand** in your country?	*Indicate significance on a scale of 1 to 5* — Loan model / Sale Model Existing demand Select Select Potential demand Select Select

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Item	Question	Answer
8.2	How would you rate the following key **drivers** of ERS market development?	*Indicate strength on a scale of 1 (very weak) to 5 (very strong)* Ageing population Select ▾ Increasing property prices Select ▾ Pension income shortfalls Select ▾ Lack of mortgage solutions Select ▾ Increasing levels of debt at retirement Select ▾ Other Select ▾ Comments
8.3	How would you rate these **barriers to development** of the ERS market?	*Indicate importance on a scale of 1 (insignificant) to 5 (very significant)* Scarcity on supply side Select ▾ Cultural resistance Select ▾ Low interest rates for regular mortgages Select ▾ Lack of knowledge among consumers Select ▾ Solvency II / Basel III Select ▾ Lack of established big name providers Select ▾ Access to funding Select ▾ Lack of competition Select ▾ The nature of the housing market Select ▾ Lack of regulation Select ▾ Level of indebtedness Select ▾ Reputational risk Select ▾ Other key factors and comments
8.4	Would you **consider** a product solution which involved the bundling of a long term tenancy with a private pension?	☐ Yes ☐ No ☐ Maybe ☐ Don't know
8.5	Which elements of **state intervention** would be most significant?	*Indicate importance on a scale of 1 (very low) to 5 (very high)* Support for no negative equity guarantee Select ▾ Tax relief for clients for payments to providers Select ▾ Tax relief for providers for receipts from clients Select ▾ Provision of suitable accommodation in urban areas which would enable a form of collective investment involving households and providers Select ▾ Provision of mechanisms which facilitated inter-generational transfers while safeguarding the capital of providers Select ▾ Standardisation of a product framework on a pan European basis Select ▾ Standardisation of a switching and securitisation process for households and for providers Select ▾ Any additional comments
8.6	What do you think would **help promote** the up-take of ERS by consumers?	
	To what extent is your organisation willing to be involved in **further exchanges** in this research project?	Possible short follow-up interview (if needed): ☐ Yes ☐ No Participation in a stakeholder meeting: ☐ Yes ☐ No

Thank you very much!

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Alongside the survey, a letter was sent explaining the importance of their participation in the project:

institut für
finanzdienstleistungen e.V.

iff • Rödingsmarkt 31/33 • 20459 Hamburg

Hamburg, March 2017

Subject: Request for provider contribution to an EU Study of Equity Release Schemes and Conference invitation

Dear Sir/Madam,

We are addressing you this letter and questionnaire because your organisation is among a select group of providers that are active in selling equity release schemes. These still innovative products are the focus of research that *iff* is conducting together with a team of researchers from six EU member states under a project for the European Commission DG Employment and Social Affairs entitled "Integrating Residential Property with Private Pension Provision in the EU". It has received funding from the EU's EaSi Grant Programme under grant agreement No VS/2015/0218. The project, running until September 2017, explores how residential property can be used to provide additional income in retirement and responds to the political and economic will of the EU to develop public policy in this area.

By answering the **questionnaire** attached with this letter, your information and views will help us better understand the market for equity release schemes, the current offerings, and the provider perspective on how to formulate policy suggestions that may support further development. We very much count on your cooperation and will treat your answers confidentially. As indicated in the questionnaire, we would appreciate your efforts in providing us with your answers by **18 April 2017**. For any queries or further information, please contact Sebastien Clerc-Renaud available under +49 4030969124, sebastien.clerc@iff-hamburg.de who will be collecting your answers.

With your contribution, we will share findings with you before presenting our final report. This could take the form of conversations, but also through planned **stakeholder meetings** to be held in a number of countries over the next months. We especially welcome the opportunity of meeting you at our project **conference to be held on Thursday 11 May 2017 in Hamburg**. We hereby warmly invite you to this event which will have English translation in the main auditorium where panel sessions on the various aspects of our project will be held, alongside other sessions covering related issues linked to retirement planning and financial services in German. We expect over 200 participants from various backgrounds (providers, consumer organisation representatives, debt advisers, policy-makers, academia and the media) and expect the international conference to support cross-border cooperation of financial service providers and give you an opportunity to be a part of the discussions with consumer protection advocates and a range of other stakeholders. Please register here: http://www.iff-hamburg.de/konferenz.

institut für finanzdienstleistungen e.V. (iff) | Vorstand: Udo Philipp, Prof. Dr. Ingrid Größl | Direktor: Dr. Dirk Ulbricht
Rödingsmarkt 31/33 | www.iff-hamburg.de | Hamburger Sparkasse | Postbank Hamburg
20459 Hamburg | institut@iff-hamburg.de | IBAN DE62 2005 0550 1238 1229 21 | IBAN DE23 2001 0020 0584 9552 00
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Fax +49 (0)40 30 96 91-22 | AG Hamburg VR 13835 | Gläubiger-ID: DE39ZZZ00000088279

In addition, we take the opportunity to inform you that we will be launching a project website with subject specific material for the wider public where your organisation can be mentioned.

We thank you in advance for taking the time to answer the questionnaire and for contributing to our common goal of enhancing knowledge of equity release schemes and to place it favourably in the political agenda of the EU and Member States. We hope to see in Hamburg in May.

Yours faithfully,

Dirk Ulbricht

Director of the institute for financial services

5.4.2 **ERS potential provider questionnaire**

B	Questionnaire for potential providers of Equity Release Scheme (ERS)
Purpose	In the frame of a research project for the European Commission entitled "Integrating Residential Property with Private Pension Provision in the EU", we seek to collect information on **your insights** to understand how existing barriers to the development of ERS in your country and across Europe can be reduced so that housing asset conversion can better contribute to supplementing private personal pensions in retirement. Your answers and views will help us better understand the market potential for equity release schemes and to formulate policy suggestions that may support development and creation of solutions.
Project team	**Institute for financial services e.V. (*iff*)**, Hamburg (Germany, Dr. Dirk Ulbricht), together with AUB (Hungary), TUD (the Netherlands), QUB (UK), WIT (Ireland), LUMSA (Italy) and UROS (Germany).
Return to and contact person	Please complete this questionnaire by saving your answers and returning by email **Sebastien Clerc-Renaud** *iff* institut für finanzdienstleistungen e.V. Rödingsmarkt 31/33, 20459 Hamburg; Tel: +49 (0)40 30 96 91 24 Email: sebastien.clerc@iff-hamburg.de Please return **by 21 July 2017**
Data protection	Assured by *iff* through its data protection officer (Arne Mauri, arne.mauri@iff-hamburg.de). We will ensure confidentiality by not publishing or disclosing any individual organisations' information. Findings will be displayed in the final report in aggregated form only.
How to complete	☑ **Click** with your mouse or by using the space bar Select **Dropdown-Menus** - use arrow keys (↑,↓) or mouse. If you wish not to leave an answer, please leave the option "Select". **Text fields** - insert numbers or text (avoid use of semicolons or return key) Use the mouse or Tab key to navigate through the Answer fields (Shift + Tab). General comment fields are available for additional information and you may annex any material to your answers.
ERS definitions	An equity release scheme enables a homeowner to access the wealth he has accumulated in his home while being able to continue to live in it. It therefore allows them to release some of the equity, or the value built up in his home, without having to move out. The purpose of such a scheme is to transform what is an illiquid asset into a source of liquidity for mainly consumption purposes during retirement. We refer to **Loan Model ERS** for credit based schemes (reverse or lifetime mortgages) where the loan is repaid from sales value of the real estate when the person dies or moves into a care home, and **Sale Model ERS** for schemes where all/part of the property is sold combined with a lifelong right of occupancy (home reversion plans).

Item	Question	Answer
1	Type of firm	<Select>
2	Have you **ever sold ERS** in the past? If yes, why did you stop accepting new business?	☐ Yes, but we stopped ☐ No, never Comments:
3	Have you **considered** selling ERS? Please explain the reasons for your answer including which product type you may have considered.	☐ No, never ☐ No but we have done minor research ☐ Yes ERS Sale Model ☐ Yes, ERS Loan Model, if so which of the following types: ☐ Home income plan ☐ Interest only ☐ Roll-up ☐ Fixed repayment ☐ Shared appreciation ☐ Other Specify what it would take for you to launch such a product:

1

Item	Question	Answer
4	Would you be more likely to consider ERS if reaching the EU market was possible?	☐ Yes, very more likely ☐ Yes, slightly more likely ☐ It would make no difference Comments:
5	Would you seek to launch an ERS on your own?	☐ Yes, alone ☐ No, with a servicer ☐ No, with an insurance partner ☐ No, we would seek another partner Comments:
6	If a no negative equity guarantee was compulsory, would this reduce the likelihood of you launching an ERS? (NNEG guarantees that the client would not owe you more than the value of the property at time of sale)	☐ Yes ☐ No ☐ I don't know Comments:
7	In terms of the **risks**, how important do you see the following for a provider of ERS?	*Indicate importance on a scale of 1 (very low) to 5 (very high)* Longevity <Select> Interest rate <Select> House valuation <Select> Reputational <Select> Maturity mismatch <Select> Moral hazard affecting quality of property <Select> Ability to sell the property <Select> Other <Select> Comments:
8	What do you see as the **biggest challenge** or constraint for providers contemplating to enter the market?	*Indicate importance on a scale of 1 (very low) to 5 (very high)* Insufficient return obtainable (at average risk) <Select> Difficulty to hedge returns with excessive risk <Select> Difficulty to recoup large transaction costs <Select> Regulatory capital requirements <Select> Access to capital <Select> Degree of support from public policy <Select> Timing of cash inflows and outflows <Select> Property market expertise and/or diversified portfolio <Select> Marketing and distribution infrastructure <Select> Comments

2

Item	Question	Answer
9	Which of these **factors** are most relevant for your decision to enter the market or not, and which are most difficult to forecast?	*Indicate relevance/difficulty on a scale of 1 (very low) to 5 (very high)* — Level of relevance / Difficulty to forecast Mortality <Select> <Select> Family events (e.g. divorce) <Select> <Select> Lapses in levels of property maintenance <Select> <Select> Regulatory requirements regarding valuation for solvency purposes <Select> <Select> Option to repurchase <Select> <Select> Penalty clauses for repurchase or early repayment <Select> <Select> Morbidity events requiring evacuation <Select> <Select> Work events (e.g. unemployment) <Select> <Select> Interest rate volatility <Select> <Select> No negative equity guarantee <Select> <Select> Option to repay early <Select> <Select> Other factors <Select> <Select> Comment:
10	How would you assess the **ERS market demand** in your country?	*Indicate significance on a scale of 1 to 5* — Loan model / Sale Model Existing demand <Select> <Select> Potential demand <Select> <Select>
11	Which of these **stages** in the business process can you expect to be the most challenging and costly?	*Indicate significance on a scale of 1 (very low) to 5 (very high)* — Level of challenge / Cost impact Marketing and seeking initial customer contact <Select> <Select> Selection and eligibility checks of interested customer <Select> <Select> Advice stage incl. alternatives, third party involvement etc. <Select> <Select> Evaluation of the property and finalising offer <Select> <Select> Contractual phase, payments, checks, etc. <Select> <Select>
12	How would you rate the following key **drivers** of ERS market development?	*Indicate strength on a scale of 1 (very weak) to 5 (very strong)* Ageing population <Select> — Increasing property prices <Select> Pension income shortfalls <Select> — Lack of different mortgage solutions <Select> Increasing levels of debt at retirement <Select> — Trends in household size <Select> Burden of property maintenance <Select> — Other <Select> Comments

3

Item	Question	Answer
13	How would you rate these **barriers to development** of the ERS market?	*Indicate importance on a scale of 1 (insignificant) to 5 (very significant)* Scarcity on supply side <Select> Low interest rates for regular mortgages <Select> Solvency II / Basel III <Select> Access to funding <Select> The nature of the housing market <Select> Level of indebtedness <Select> Cultural resistance <Select> Lack of knowledge among consumers <Select> Lack of established big name providers <Select> Lack of competition <Select> Lack of regulation <Select> Reputational risk <Select> Other key factors and comments
14	Would you **consider** a product solution which involved the bundling of a long term tenancy with a private pension?	☐ Yes ☐ No ☐ Maybe ☐ Don't know
15	How would the following **state interventions** affect your probability of entering the ERS market (each individually)?	*Indicate importance on a scale of 1 (very low) to 5 (very high)* Support for no negative equity guarantee <Select> Tax relief for clients for payments to providers <Select> Tax relief for providers for receipts from clients <Select> Provision of suitable accommodation in urban areas which would enable a form of collective investment involving households and providers <Select> Provision of mechanisms which facilitated inter-generational transfers while safeguarding the capital of providers <Select> Standardisation of a product framework on a pan European basis <Select> Standardisation of a switching and securitisation process for households and for providers <Select> Any additional comments
16	What do you think would **help promote** the up-take of ERS by consumers?	
	Additional comments:	

Thank you very much!

4

5.4.3 **Regulator questionnaire**

Pension through Equity Release Schemes (ERS)

Could you describe and correct the legal situation with regard to ERS and additional models proposed in the Annex? (update from 2009)

Task	This project is being conducted for the European Commission in order to develop viable models of equity release (liquidation of real estate values) for old age pension schemes. With the 11 questions in this questionnaire we would like to update our 2009 information on the legal situation regard ERS in your country. When answering the last two questions, please look at the Annex where three further models 2,3,4 are outlined. We would like to know whether these models would be legally feasible in your country. (You may provide your answers in German or French if not in English)
Our Team	**Institute for financial services e.V. (*iff*),** Hamburg (Germany, Dr. Dirk Ulbricht), together with Rostock University (Germany), Andrássy University (Hungary), Waterford Institute of Technology (Ireland), Technical University of Delft (Netherlands), The Libera Università Maria Ss. Assunta (Italy) and Queens University Belfast (UK)
Return to	**Sebastien Clerc-Renaud** *iff* institut für finanzdienstleistungen e.V. Rödingsmarkt 31/33, 20459 Hamburg; Tel: +49 (0)40 30 96 91 24 Email: sebastien.clerc@iff-hamburg.de Please return **by 15 August 2017**
Data protection	Assured by *iff* through its data protection officer (Arne Mauri, arne.mauri@iff-hamburg.de). We will ensure confidentiality by not publishing or disclosing any individual organisations' information. Findings will be displayed in the final report in aggregated form only.
ERS definitions	An ERS enables an older homeowner to access the wealth accumulated in their home while being able to continue to live in it (i.e. it allows to release some of the value built up without having to move out). It transforms an illiquid asset into a source of liquidity for mainly consumption. The transaction is the exchange of some or all of the potential proceeds from the eventual sale of the property in return for cash now. If in the form of a loan, it is repaid from sales value of the real estate upon either death or vacation of the property (i.e. no regular repayments are due). We refer to **Loan Model ERS** for credit based schemes (reverse or lifetime mortgages), **Sale Model ERS** for schemes where all/part of the property is sold combined with a lifelong right of occupancy (home reversion plans) excluding sale and lease back that are arrangements that do not ensure permanency of residence.

Questionnaire

Note: The second column refers to the item number of the answers provided in the 2008 questionnaire received from your organisation. Please refer to the previous answers provided attached to the email addressed to you.

	Ref. no.	Question	Answer
	0	Your country	
	0.1	Your organisation	

1

	Ref. no.	Question	Answer
	0.2	Contact	
1		The **Mortgage Credit Directive** excludes ERS from the scope of regulation. How has national transposition of the MCD treated ERS in your country? (Please describe the level of legal certainty for ERS providers) (Directive 2014/17/EU Article 3 (2)) http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0017	
2	5.1	What kind of **licence** does a provider need in order to be authorised to sell the different ERS?	**Loan Model** ☐ Authorised ☐ Notified ☐ Registered Please specify **Sale Model** ☐ Authorised ☐ Notified ☐ Registered Please specify
3	5.2	Are there any **regular controls** exerted on these ERS and their providers?	**Loan Model** ☐ Yes ☐ No ☐ Don't know Please specify any supervisory requirements **Sale Model** ☐ Yes ☐ No ☐ Don't know Please specify
4	5.4	What kind of **licence** is compulsory for intermediaries?	**Loan Model** ☐ Registration ☐ Regular control ☐ Code of conduct ☐ Complaint body ☐ Qualification level ☐ Other Details **Sale Model** ☐ Registration ☐ Regular control ☐ Code of conduct ☐ Complaint body ☐ Qualification level ☐ Other Details

2

	Ref. no.	Question	Answer
5	5.5	Are such schemes defined in the **Laws**? (Please describe and specify the applicability to Loan Model and/or Sale Model ERS)	Tax Law: Contract Law: Bank Law: Housing Law: Codes of Conduct: Recommendations: Other:
6	5.6	How are the different types of ERS **regulated**? (Please mention any legal or regulatory changes currently planned or considered)	**Loan Model** **Sale Model** Other equivalent types
7	5.7	**Typical restrictions** imposed on the consumer by **LAW** (Please give details and differentiate between types of ERS)	Loan Model / Sale Model Form of payment ☐ ☐ Amount of funds released ☐ ☐ Lifelong annuity payments ☐ ☐ Age ☐ ☐ Ownership ☐ ☐ Lifelong occupancy right ☐ ☐ Use of the funds ☐ ☐ Use made of the home ☐ ☐ Surety ☐ ☐ Combinations with an investment product ☐ ☐ Other ☐ ☐ Details Are you aware of any typical restrictions imposed on the consumer by the providers?
8	5.9	Has a different **level of regulation** hindered certain	☐ Yes ☐ No ☐ Don't know

3

	Ref. no.	Question	Answer
		forms of ERS?	Please specify
9		Please provide a **list of the ERS providers** (both Loan Model and Sale Model) and indicate if intermediaries are active in the marketing of these products	
If you have time, we would welcome your opinions and answers regarding variations of the ERS that are being discussed with stakeholders for the interest of the European Commission. Please see the Annex below and enter your remarks if you have any or tell us if we could call you to discuss these over the phone.			
10		Are you available to discuss these models briefly by phone?	☐ Yes ☐ No
11		Views on these models and how laws and regulations could be a barrier or support exploration of these models. (see definitions below)	Model 2: Save to equity (saving & loan) Model 3: Rent your own flat (shared home-ownership) Model 4: PensionTenancy (Combined rent/savings)
Thank you very much!			

4

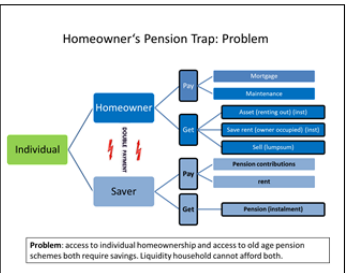
Annex: Three alternative Models combining homeownership and private old age pension schemes beyond the established first Model which is the ERS Loan Model covered above.

Context

Problem we are seeking to address

Living in a secured own home is widely acknowledged as increasing individual welfare and stability in society. While the upper part of society either inherits a home or is able to save for and acquire a home during their lifetime, which may be handed over to their children, those with liquidity constraints have to finance a home with little chance to built up sufficient equity so that they also own it economically.

But there is an additional problem which stems from the shift of old age income from family and social security to private pension schemes which necessitates life long savings. This requirement is in conflict with the obligation to repay a mortgage. The homeowner has to simultaneously built up equity in his or her home and assets in their pension scheme. This double burden may either lead to ignore the necessities of building financial assets for old age or to resign from homeownership.

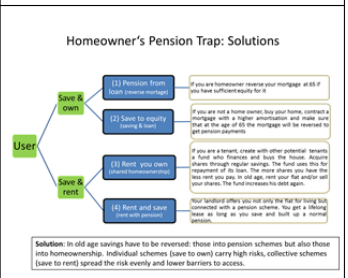


Possible solutions

In theory homeownership and a private pension for old age could be achieved if during one's active period of life the old-age savings are turned into equity and if at one's retirement this process is reversed.

There have been numerous attempts world-wide to harmonise both systems but in practice they have not been very effective and especially lack a widespread use. This is why with the current project we have developed four models in which the use of a home as a fixed asset and the use of money in old age as a variable asset could be combined.

The models fall into two groups. The first group provides legal property and tries to use credit in order to reach the necessary liquidity for saving and paying out of pensions, the second group replaces individual property by other legal forms like a life long lease and strong property rights through lifetime.



5

Models for providing solutions

1.1 Pension from loans (reverse mortgage) (1)

Equity release schemes (ERS) are primarily of two forms – loan model ERS and sale model ERS. The loan model ERS, which is also known as a lifetime mortgage permits homeowners to borrow money against the value of their property without losing their ownership. The customer can choose to receive funds in a lump sum amount or in regular annuities or in a series of drawdowns. In this form, the loan amount plus interest is recovered through the sale proceeds of the house.[1]

1.2 Save to equity (saving & loan) (2)

One mortgage is taken out for the entire life-time of an indivdual in order to acquire a home, build up equity in it and use this equity for old-age pension payments. It is one single product and one supplier. The amortisation is made with regular annuities which count as old age savings. At the age of 65 the payments are reversed again with regular annuities. The supplier covers the longevity risk with either an insurance product or by spreading the risk.

1.3 Rent your own flat (shared home-ownership) (3)

Tenants form a (or adhere to a) union which creates a closed-end real estate fund (ltd). The union members acquire shares to capitalize the fund. The fund acquires the house(s) using credit. The union members/shareholders are then also tenants of "their" home. Their lifelong rights as users are linked to their shares. The rent is calculated upon the cost of the fund and the share the tenant holds. Regular savings which on an annual basis lead to the acquisition of more shares are acknowledged as old age pension savings if they are exempted from liquidation before. The tenant can sell the shares after 65 either via the fund to other tenants, or directly to a successor or to the real estate fund itself who can refinance it.

1.4 PensionTenancy (Combined rent/savings) (4)

Housing companies that rent flats to people with moderate income who are reluctant to save into a private pension scheme, perhaps because they are saving for future homeownership, are offered a scheme in which they receive life long leases in exchange for a higher rent which comprises a part that is invested into a private pension scheme. Since the landlord acts as an intermediary for a pension scheme the tenant has only to do with one actor. Similar to the case of employers for occupational pensions, the landlord will also act in the best interest of the tenant. The savings are acknowledged and treated like any other contributions to a private pension scheme.

[1] See 2009 Study Equity Release Schemes in the EU (MARKT/2007/23/H) available at: http://ec.europa.eu/internal_market/finservices-retail/docs/credit/equity_release_part1_en.pdf

6

5.4.4 **Legal expert questionnaire**

Pension through Equity Release Schemes (ERS)

Could you describe and correct the legal situation with regard to ERS and additional models proposed in the Annex? (update from 2008)

Task	We would like to include you as a contributor to a research project the *iff* is conducting on old-age pensions and residential property on behalf of the European Commission (DG EMPL - VP/2014/014: Promoting the contribution of private savings to pension adequacy). We are seeking to update our understanding of the legal and regulatory situation regarding Equity Release Schemes (ERS) in the EU. With your answers to this questionnaire we would like to update our 2008 information on the legal situation regarding ERS in your country. We are asking you questions about two areas: The first set of questions are about ERS as we know them today. How are the two forms of ERS (Loan Model and Sale Model) regulated and are there either weaknesses or examples of better regulatory practice you can identify. Because the project aims to explore other viable models of equity release (liquidation of real estate values) for old age pension schemes, we ask you in Part 2, to comment from a legal point of view the legal problems you can see in the three models we propose and have outlined in the Annex (more details can be provided on request). Do you think such models could be implemented in your country? We would appreciate your views on the feasibility of these and any relevant legal issues.
Our Team	**Institute for financial services e.V. (*iff*),** Hamburg (Germany, Dr. Dirk Ulbricht), together with Rostock University (Germany), Andrássy University (Hungary), Waterford Institute of Technology (Ireland), Technical University of Delft (Netherlands), The Libera Università Maria Ss. Assunta (Italy) and Queens University Belfast (UK)
Return to	**Sebastien Clerc-Renaud** *iff* institut für finanzdienstleistungen e.V. Rödingsmarkt 31/33, 20459 Hamburg; Tel: +49 (0)40 30 96 91 24 Email: sebastien.clerc@iff-hamburg.de Please return **by 15 August 2017 if possible** (or indicate by when in August this could be completed)
ERS definitions	An ERS enables an older homeowner to access the wealth accumulated in their home while being able to continue to live in it (i.e. it allows to release some of the value built up without having to move out). It transforms an illiquid asset into a source of liquidity for mainly consumption. The transaction is the exchange of some or all of the potential proceeds from the eventual sale of the property in return for cash now. If in the form of a loan, it is repaid from sales value of the real estate upon either death or vacation of the property (i.e. no regular repayments are due). We refer to **Loan Model ERS** for credit based schemes (reverse or lifetime mortgages), **Sale Model ERS** for schemes where all/part of the property is sold combined with a lifelong right of occupancy (home reversion plans) excluding sale and lease back that are arrangements that do not ensure permanency of residence.

1

Questionnaire

Note: The second column refers to the item number of the answers provided in the 2008 questionnaire received from your organisation. Please refer to the previous answers provided attached to the email addressed to you.

	Ref. no.	Question	Answer
		Your country	
		Respondent name	
1		The **Mortgage Credit Directive** excludes ERS from the scope of regulation. How has national transposition of the MCD treated ERS in your country? (Please describe the level of legal certainty for ERS providers) (Directive 2014/17/EU Article 3 (2)) http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0017	
2	5.1	What kind of **licence** does a provider need in order to be authorised to sell the different ERS? What is the authority granting licence or authorisation?	**Loan Model** ☐ Authorised ☐ Notified ☐ Registered Please specify **Sale Model** ☐ Authorised ☐ Notified ☐ Registered Please specify
3	5.2	Are there any **regular controls** exerted on these ERS and their providers? Please provide the name of the supervisor	**Loan Model** ☐ Yes ☐ No ☐ Don't know Please specify any supervisory requirements **Sale Model** ☐ Yes ☐ No ☐ Don't know Please specify
4	5.4	What kind of **licence** is compulsory for intermediaries? (Name of supervisor)	**Loan Model** ☐ Registration ☐ Regular control ☐ Code of conduct ☐ Complaint body ☐ Qualification level ☐ Other Details **Sale Model**

2

	Ref. no.	Question	Answer
			☐ Registration ☐ Regular control ☐ Code of conduct ☐ Complaint body ☐ Qualification level ☐ Other Details
5	5.5	Are such schemes defined in the **Laws**? (Please describe and specify the applicability to Loan Model and/or Sale Model ERS)	Tax Law: Contract Law: Bank Law: Housing Law: Codes of Conduct: Recommendations: Other:
6	5.6	How are the different types of ERS **regulated**? (Please mention any legal or regulatory changes currently planned or considered)	**Loan Model** **Sale Model** Other equivalent types
7	5.7	**Typical restrictions/ or rights** imposed on the consumer by **LAW/or statute** (Please give details and differentiate between types of ERS)	Loan Model / Sale Model Form of payment ☐ ☐ Amount of funds released ☐ ☐ Lifelong annuity payments ☐ ☐ Age ☐ ☐ Ownership ☐ ☐ Lifelong occupancy right ☐ ☐ Use of the funds ☐ ☐ Use made of the home ☐ ☐ Surety ☐ ☐ Combinations with an investment product ☐ ☐ Other ☐ ☐ Details

3

	Ref. no.	Question	Answer
			Are you aware of any typical restrictions imposed on the consumer by the providers?
8	5.9	Has a different **level of regulation** hindered certain forms of ERS?	☐ Yes ☐ No ☐ Don't know Please specify
9		Please provide a **list of the ERS providers** (both Loan Model and Sale Model) and indicate if intermediaries are active in the marketing of these products	

PART 2

In this part, we welcome your opinions and answers regarding variations of the ERS that are being discussed with certain stakeholders. **Please see the Annex below where three further models 2,3,4 are outlined and enter what you see as the main relevant issues with regard to their feasibility and how laws and regulations could be a barrier or support exploration of these models.** For example, problems regarding the formalities and information requirements of the contract (purchase/rent of the property; requirements for investment product attached; insurance for the product etc.)

10	Model 2: Save to equity (saving & loan) Possible issues: How can a consumer get out of the contract? Are there legal or contractual penalties as a result?	
11	Model 3: Rent your own flat (shared home-ownership) Possible issues: How can consumers dispose of their shares? What instruments (units) can be used?	
12	Model 4: PensionTenancy (Combined rent/savings) Possible issues: What happens if the housing association goes bankrupt? Does your law allow a person to continue living in the property?	

Thank you very much!

4

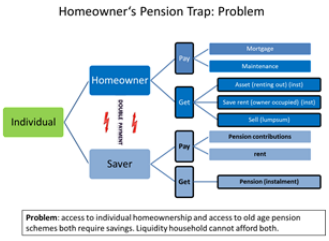
Annex: Three alternative Models combining homeownership and private old age pension schemes beyond the established first Model which is the ERS Loan Model covered above.

Context

Problem we are seeking to address

Living in a secured own home is widely acknowledged as increasing individual welfare and stability in society. While the upper part of society either inherits a home or is able to save for and acquire a home during their lifetime, which may be handed over to their children, those with liquidity constraints have to finance a home with little chance to built up sufficient equity so that they also own it economically.

But there is an additional problem which stems from the shift of old age income from family and social security to private pension schemes which necessitates life long savings. This requirement is in conflict with the obligation to repay a mortgage. The homeowner has to simultaneously built up equity in his or her home and assets in their pension scheme. This double burden may either lead to ignore the necessities of building financial assets for old age or to resign from homeownership.



Possible solutions

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There have been numerous attempts world-wide to harmonise both systems but in practice they have not been very effective and especially lack a widespread use. This is why with the current project we have developed four models in which the use of a home as a fixed asset and the use of money in old age as a variable asset could be combined.

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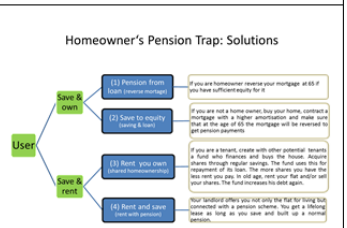

5

Models for providing solutions

Existing ERS

1.1 **Pension from loans (reverse mortgage) (1)**

Equity release schemes (ERS) are primarily of two forms – **loan model ERS** and **sale model ERS.** The loan model ERS, which is also known as a lifetime mortgage permits homeowners to borrow money against the value of their property without losing their ownership. The customer can choose to receive funds in a lump sum amount or in regular annuities or in a series of drawdowns. In this form, the loan amount plus interest is recovered through the sale proceeds of the house.[1]

New types under consideration

1.2 **Save to equity (saving & loan) (2)**

Combine purchase pahse and pension phase. One mortgage is taken out for the entire life-time of an individual in order to acquire a home, build up equity in it and use this equity for old-age pension payments. It is one single product and offered by one supplier. The amortisation is made with regular annuities which count as old age savings. At the age of 65 the payments are reversed again with regular annuities to the homeowner. The supplier covers the longevity risk with either an insurance product or by spreading the risk.

1.3 **Rent your own flat (shared home-ownership) (3)**

Tenants form a (or adhere to a) union which creates a closed-end real estate fund (ltd). The union members acquire shares to capitalize the fund. The fund acquires the house(s) using credit. The union members/shareholders are then also tenants of "their" home. Their lifelong rights as users are linked to their shares. The rent is calculated upon the cost of the fund and the share the tenant holds. Regular savings which on an annual basis lead to the acquisition of more shares are acknowledged as old age pension savings if they are exempted from liquidation before. The tenant can sell the shares after 65 either via the fund to other tenants, or directly to a successor or to the real estate fund itself who can refinance it.

1.4 **PensionTenancy (Combined rent/savings) (4)**

Housing companies that rent flats to people with moderate income who are reluctant to save into a private pension scheme, perhaps because they are saving for future homeownership, are offered a scheme in which they receive life long leases in exchange for a higher rent which comprises a part that is invested into a private pension scheme. Since the landlord acts as an intermediary for a pension scheme the tenant has only to do with one actor. Similar to the case of employers for occupational pensions, the landlord will also act in the best interest of the tenant. The savings are acknowledged and treated like any other contributions to a private pension scheme.

[1] See the links to the JRC 2009 Study Equity Release Schemes in the EU:
http://ec.europa.eu/internal_market/finservices-retail/docs/credit/equity_release_part1_en.pdf;
http://ec.europa.eu/internal_market/finservices-retail/docs/credit/equity_release_part2_en.pdf;
http://ec.europa.eu/internal_market/finservices-retail/docs/credit/equity_release_part3_en.pdf.

6

6 Project Team and partners

The Consortium that carried out this research from September 2015 to November 2017 was made up of the following partners: Institut für Finanzdienstleistungen e.V. (iff), Rostock University (UROS), Andrássy University (AUB), Waterford Institute of Technology (WIT), Technical University of Delft (TUD), The Libera Università Maria Ss. Assunta (LUMSA), and Queens University Belfast (QUB).

Together these project partners represent institutions in 6 EU Member States from DE, IT, NL, IE, HU, and the UK. The project has mainly focused its work on those EU Member State. They have been selected because they represent a range of geographical, social, economic, and equity release market countries from across the EU[11]. Application of the findings of the project with regard to the integration of residential property and retirement incomes are not just relevant to those 6 member states but others as well.

Table 12: Consortium research teams

Team No.	**Institution**	**Researchers**
1	**iff-Hamburg**	Mr Sebastien Clerc Renaud Dr Dirk Ulbricht Prof Udo Reifner Mr Michael Feigl Mr Kerim Al-Umaray
2	**Waterford Institute of Technology**	Mr John Maher Dr Richard Burke Dr Sean Byrne Mr Yogesh Jaiyawala
3	**Queen's University Belfast**	Prof Donal Mckillop Dr Declan French Ms Tripti Sharma
4	**University of Rostock**	Prof Doris Neuberger Dr Peter Hennecke
5	**Technological University Delft**	Prof Marja Elsinga Dr Jorg Hoekstra Dr Marietta Haffner
6	**Andrassy University Budapest**	Prof Martina Eckardt Dr Jörg Dötsch Dr Stefan Okruch

[11] See Output Workstream Paper 1 for the representativeness of the selected 6 EU member states to allow extrapolation to the EU generally.

		Dr Felix Piazolo
7	**LUMSA Rome** (Libera Università degli Studi Maria Ss. Assunta di Roma)	Prof. Giovanni Ferri Prof Pierluigi Murro Dr Flaviana Palmisano Dr Francesca Lipari

6.1 Institut für finanzdienstleistungen (iff)

The institut für finanzdienstleistungen (*iff*) has been conducting studies for the European Institutions for over 25 years. The main focus of the iff is legal, social and economic questions in relation to financial services. It is an independent, internationally-oriented non-profit organisation providing research and advice in the field of sustainable financial services. The institute creates electronic data-processing programmes for providers of financial advice to consumers. It issues publications, assists with training and develops models for socially responsible loans, investments, payment methods and insurance. iff is financed exclusively through current projects and does not receive any public subsidy. It is a medium-sized enterprise, whose employees are drawn primarily from academic circles, the majority of whom have studied, lecture or practice law.

Among its research for the European Commission, it has conducted studies on Equity Release Schemes in the EU (DG MARKT, 2009), on interest rate restrictions (DG MARKT), mortgage credit (DG MARKT), remuneration of financial intermediaries (DG MARKT), cross border distance marketing (DG SANCO), and Consumer Financial Advice training courses for non-profit entities, ConFinAd (DG SANCO). In addition, it has conducted numerous studies on pensions for the German federal ministries and recent projects include a cost benefit analysis of guarantee banks, an impact assessment of Germany's wage garnishment limitation law for private overindebted persons, the study of fairness in credit contracts and provider practice in German credit markets, exploration of traffic light system for investment product consumer disclosure documents, and the design of key information documents for old age state sponsored investment products in Germany. Alongside its regulatory, market and consumer protection focused studies, the iff also helps providers in the development of innovative products that better meet consumer needs e.g. the project that proposed the development of a new form of payment protection insurance for a German bank client. Its area of special expertise is in credit where it produces the annual German overindebtedeness report which investigates and reports with detailed data the situation and causes of private overindebtedness.

6.2 Rostock University (UROS)

The University of Rostock (founded in 1419) is not only the oldest one in the Baltic Sea region but also the richest in tradition. It consists of nine traditional faculties and one central interdisciplinary faculty in which scientists and students from all faculties collaborate to do research in the four major fields of "Ageing of individuals and society" (AGIS), "Life, light and matter", "Maritime systems", and "Knowledge - Culture - Transformation". AGIS focuses on demographic change as one of the greatest challenges of the modern industrial society to find solutions for its consequences such as prolongation of the working life, increasing need of long-term care and problems of financing pensions. It collaborates with the Max Planck Institute for Demographic Research (MPIDF). A common initiative of both institutions is the Rostock Center for the Study of Demographic Change (Rostocker Zentrum zur Erforschung des Demografischen Wandels, RZ). It combines internationally known basic research with applied interdisciplinary in the fields of demography, economics, sociology and statistics in order to foster practical research and answer politically relevant questions related to demographic change and transfer the

results to decision makers in politics and economics, journalists, scientists, students, teachers and all interested interest groups in society.

See details about Doris Neuberger, Professor of Economics, Chair of Money and Credit at Rostock University and research director at iff Hamburg, and expert in finance and demographic change, by reading her CV and below in the Annex outlining technical capacity.

6.3 Andrássy University (AUB)

Andrássy University Budapest (AUB) is a relatively small institution with 3 faculties and a doctoral school. The University is led by a rector, two vice rectors and a chancellor. The rector and the vice rectors are responsible for all academic issues, while the chancellor is responsible for all administrative and financial issues. AUB is a private Hungarian university owned by a public foundation and financed by Hungarian, Austrian and German authorities, the language of its study programmes is German.

Prof Dr Martina Eckardt, Chair of Public Finance and Public Economics, and Prof Dr Stefan Okruch, Chair of Economic Policy at Andrássy University Budapest have long experience in research on pensions, old-age security and insurance as well as in comparative law and economics. As senior researcher they have the Hungarian project lead of Expact (Expact – Experience keep people active; AAL-JP 2013; international, 2014-2016; Andrássy University Budapest, Lead Partner ZHAW Winterthur, total grant > € 2.5m, Hungarian share 23%). Expact aims to improve the quality of life for senior citizens by strengthening social inclusion, improving social interaction and self-esteem. To this end ICT solutions in conjunction with accompanying services are developed which will enable older adults to make full use of their experience.

Dr Felix Piazolo, Associate Professor and Chair of Business Administration at the Andrássy University Budapest and senior researcher at the University of Innsbruck, has profound experiences in international, transnational and national research and innovation projects. As a senior researcher Mr. Piazolo initiated and has led several AAL-projects (ambient/active assisted living) and numerous ICT-driven innovation projects (extract). Additionally Dr. Piazolo is permanently involved in diverse Business Development and Business Model innovation projects in cooperation with diverse organisations (extract).

Dr Jörg Dötsch, Associate Professor at the Chair of Economic Policy at Andrássy University Budapest, has experience in research on economic policy, competitiveness and public policy. As the university's representative for corporate contacts he is in permanent dialogue with companies and regulators and is involved in international research pojects as e.g. with the Heidelberg Academy of Sciences and Humanities.

6.4 Waterford Institute of Technology (WIT)

Waterford Institute of Technology (WIT) is a publicly funded higher education institution established in 1970 by statute. The School of Business is one of six Academic Schools in the Institute. The Departments of Accounting and Economics, Management and Organisation, and Graduate Business are the three academic units in the aforementioned School. Its Academic Staff deliver educational programmes on business courses and across the Institute. These programmes are at undergraduate and at graduate levels and combine traditional delivery with blended learning. The School's core theme is developing the thinking professional, fit for business and fit for life. The Finance and Business Research Centre undertakes applied research which has relevance to policy and practice, while also contributing to the expansion of the frontiers of knowledge with respect to the problems and opportunities in society.

John Maher has worked in the financial services sector and lectured with respect to financial management, lending, marketing financial services and financial regulation for over twenty

years. He has undertaken training for the European Consumer Association and served on the Consumer Consultative Panel of the Irish Financial Regulator.

Dr Richard Burke has undertaken doctoral research in finance and is actively involved in research supervision at doctoral level while also lecturing in the financial domain.

Dr Sean Byrne is a program leader on the DBA programme and lectures in research methodology on masters, doctoral and external programmes.

Yogesh Jaiyawala holds a MSc in Finance and is undertaking a research project in retirement income leading to a Phd. He has previous experience in the banking sector and is a qualified management accountant.

6.5 Technical University of Delft (TUD)

Delft University of Technology (TUDelft), founded in 1842, is the oldest, largest and most comprehensive university of technology in the Netherlands. It offers a wide variety of education in Science, Engineering and Design. A total of 16.000 students are enrolled in one of its 14 bachelor programs (10.500 students) or in one of its 41 master programs (5500 students) including several Erasmus Mundus Masters. TU Delft has shown its responsibility towards society by focusing its research on four global themes: Energy, Environment, Infrastructures, and Health. It is partner in two recently granted KIC's (Knowledge and Innovation Community) Environment and ICT.

The department OTB Research for the Built Environment consists of seven research groups and more than 100 researchers. The core task of the department is to conduct research. Its research is mainly concerned with market and policy issues related to the Built Environment and covers the full range from more theoretical to applied sciences. The Housing group is a multidisciplinary group that is specialised in comparative housing research. The group has more than two decades of experience in comparative research and participated in several research projects for the European Commission.

The lead partner in co-applicant organisation TUD has extensive experience on the subject of the research and is a member of the Netherlands Taskforce on Equity Release as well as having been a researcher in past EU funded research from DG Research on housing wealth and demographics (DEMHOW Project). TUD was also partner in an Australian research project on housing equity release focussing on the riskiness of housing as a vehicle for retirement funding and TUD was leading the team that won a grant to organise a seminar on the edges of home ownership also focussing on the risks of housing equity release.

6.6 The Libera Università Maria Ss. Assunta (LUMSA)

LUMSA has four different Departments, three in Rome and one in Palermo: Department of Human Science-Communication, Education and Psychology; Department of Law (one in Rome and one in Palermo); Department of Economy, Political science and Foreign language. The Director of Department is elected from researchers and professor in charge of the department; the election period is at least three year. The new statute of LUMSA provides for a new university body: the University Centre for Research and Internationalisation (Centro di Ateneo per la ricerca e l'internazionalizzazione). CARI is responsible for the promotion and support of research activities, academic collaboration and the internationalization of the University, including teaching staff and students working abroad. CARI is directed by the Pro-Rector for Research and Internationalization with the assistance of the Scientific Council which consists of scholars from within LUMSA and outside, of national and international renown. It works in conjunction with all the relevant university Departments and Committees and all the national and international organizations relevant to its operation. "CARI can create and fund research units, research groups and programmes which are open to scholars and researchers from other research, cultural, national and international institutes and universities". In the annual surveys

conducted by Censis (National Research Institute) in the last six years, the Departments at LUMSA rank in the top 5 Italian private higher education institutions.

6.7 Queens University Belfast (QUB)

QUB contributed through (i) bringing to bear a UK perspective to the current situation regarding the integration of residential property with retirement income for individuals; (ii) helping frame the conceptual landscape that could lead to developing a range of solutions involving a greater degree of integration over time; (iii) examining solutions from a socioeconomic perspective that might offer an increased role for private sector innovation to serve individual and community needs for retirement income provision through effective transformative product solutions for residential property assets.

Donal McKillop has expertise as a financial economist who has undertaken significant work on pension schemes and their impact on company market and credit risk. He is a Professor of Financial Services at QUB and the Chairman of the Credit Union Advisory Committee, Ireland (September 2013 – September 2018). He also chaired the Commission on Credit Unions (Ireland) from 2011 to 2012. Professor McKillop teaches Financial Engineering and Financial Regulation and Risk Management. This partner will bring technical financial expertise to the Consortium.

Declan French has special expertise as a statistician who works on finance, household finance and health economics. He is a senior lecturer in finance at QUB, a researcher with the Centre of Excellence for Public Health and co-director of the Queen's University Centre for Health Research at the Management School (CHaRMS).

Tripti Sharma holds an MSc Risk Management and Financial Regulation with distinction and she is undertaking a PhD in Finance. Her research is in the area of housing equity withdrawal in later life and pension adequacy. She is also a student of actuarial science who has previously worked in the life insurance sector.