Wohneigentum in der Altersvorsorge

Home Equity Release – Experiences from abroad

Richard Coon

Dass ein Anbieter, der Eigenheime gegen Rentenzahlungen kauft, sein Geschäftsfeld als Wachstumsmarkt sieht, ist legitim. Und tatsächlich ist die Dynamik des Unternehmens, das über Neuseeland hinaus auch in Australien, Großbritannien und Spanien Präsenz zeigt, beeindruckend. Weitere Länder sollen nach dem Willen des Autors folgen. Doch Deutschland zählt er nicht dazu, denn erstens ist hier die Eigentumsquote zu niedrig, zweitens steigen die Preise für Wohnungen nur langsam und drittens sind hiesige Eigenheimbesitzer nicht hoch genug verschuldet. Letzteres dürfte kaum bedauert werden. (Red.)

Seniors Money International was founded in New Zealand in 2003 and launched its first product, the Lifetime Loan, under the Sentinel brand in March 2004. The tremendous potential for the product not only in New Zealand but also in other markets soon became clear and we went on to launch in Australia, Ireland, South Africa, Spain and most recently, Canada. The company is quite rare in having become an international specialist in home equity release.

The team behind the company are the founders of an earlier New Zealand success story, Sovereign, which is now that country's largest life company.
It is perhaps not surprising that we see home equity release (HER) as being more of a life assurance than a banking product. The Lifetime Loan as just one part of the decumulation plan, which looks at how seniors live on their assets during retirement consistent with set inheritance goals. This is a period of great uncertainty. They do not know how long they are going to live and there will be a number of risks that they will need to be able to manage. HER has to work hand in hand with lifetime annuities and specialist risk management products including death cover, long term care and major medical.

New Zealand versus Germany

We have identified several markets worldwide with strong potential for HER and have developed a comprehensive checklist which allows us to assess a new market opportunity. Factors include overall population size and growth, age breakdown, home ownership, house price inflation, pension and benefit levels, ease of distribution, cultural attitudes, legal structures, taxation and level of government support for the product.

E.g. a country like New Zealand is very attractive with strong population growth including immigration, low pillar 1 pensions at 40 per cent of average wage and very little pillar 2 or 3 pensions, long term average house inflation of over
10 per cent and over 70 per cent home ownership. The only negatives are perhaps relatively high interest rates and tax/state benefit system that discourages regular payments and annuities. In contrast a product will be less attractive in Luxembourg where pension income replacement is over 100 per cent or Germany where some of the cities have home ownership rates of under 20 per cent and there has been minimal real house price inflation.

Whilst there are significant differences between markets we believe that there are certain key product features that should apply in any market.

● The product should be designed to allow occupancy for life – this is critical. It is really worrying to see some term products available, say for five or ten years.

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● There should be a no negative equity guarantee so that whatever happens the lender does not have recourse beyond the net sale proceeds of the home.

● The borrower should be able to draw funds as they need them and not be forced to take more than they need.

● There should be no significant penalties for early repayment. Whilst it may be called a Lifetime Loan and for many it is just that, this is a period of change and there can be a lot of valid reasons why a person might want or have to move other than the survivor dying or going into care. The company expects to see voluntary move out rates of between five and ten per cent per annum.

● Interest rate should be variable. Fixed rates, especially longer term ones, do not allow the flexibility that seniors need and often incur a penalty for voluntary early repayment. These penalties can be substantial e.g. if a woman aged 70 loses her husband and decides to move to somewhere smaller and nearer her family and say long term interest rates have fallen three per cent since they took out the loan (as they have in the UK) the lender will determine that she has a life expectancy of 17 years and charge a break fee of 17 x 3 = 51 per cent.

● The product must not be too complex. In theory it could allow for single versus married, male versus female, health and expected longevity, property region, property type, how funds are drawn and expected future interest rates. This is all very logical but could anyone understand it.

There are some product differences between markets but these are normally driven by legislation rather than demand e.g. in some markets it is difficult to offer a regular payment option as this is regarded as income under the relevant social security act and can impact on eligibility for state benefits.

The reasons for HER

Use of funds is very similar across the various markets. Borrowers generally have more than one reason for borrowing so the percentages add up to over 100 per cent. The biggest reason by far at over 50 per cent is home maintenance and improvement. This is not surprising in that clients now in their seventies may not have had sufficient income since they retired over ten years earlier to be able to afford to paint their home and they are probably not keen to go up a ladder themselves. They may also be adapting the home to meet changed health needs.

The second biggest reason is perhaps a little more surprising – over 30 per cent of clients are borrowing to repay existing debt. Further research shows most of this to be very expensive credit card debt. We are also now seeing a significant increase in the numbers retiring without having managed to clear their standard repayment mortgage and their bank is pressurizing for repayment by trading down. However most do not want to move from the house they love and perhaps the neighborhood they are familiar with. In any event trading down often does not make economic sense when you take account of the cost of moving, particularly in countries with high taxes or duties on the transfer of property.

There are a variety of reasons in the 20 to 30 per cent range – these include buying a replacement car, helping the family/advanced inheritance, travel and other capital goods. In the 10 to 20 per cent range but growing rapidly is spending on medical procedures – hip replacement, cataracts etc where many countries see this as non-essential and there are long waiting lists for the public health system. The vast majority of these reasons are all about maintaining independence and being able to stay healthy, warm, safe and comfortable in your own home for as long as possible. In most countries this is entirely consistent with government policy (ageing in place) and it is therefore not surprising that we are beginning to see in some countries strong government support for HER.

Having launched in six markets, all with their own distinct differences, we have developed a standardized entry approach. It's a bit like McDonalds but the detailed recipes may have to change to meet local conditions. The main differences are:

Interest rates – we charge around six per cent in Ireland, ten per cent in New Zealand and 14 per cent in South Africa. Because of the impact of interest compounding we may need to set different loan to value ratios for each market to reflect the varying interest rate risk. Typically HER interest rates are one to two per cent above a standard variable mortgage rate.

Taxation – areas such as capital tax, wealth tax, stamp duty, inheritance tax, capital gains tax, annuity taxation, property taxes and mortgage interest relief can make a significant difference for the design of the product.

Property law – generally all law was written prior to HER products being commonly available and there is not always a good fit.

Credit law – similarly to property law this tends to pre-date the introduction of HER. In some countries HER is still illegal. Many jurisdictions have a problem with having no maturity date.

State benefits – most state benefit systems are designed on the basis of need and the design of the product must ensure that valuable state benefits are not lost.

We have developed detailed checklists so that we can quickly identify the main issues in any new market. One of the benefits of being a specialist but in a range of different markets is that you get a lot of experience very quickly. Because of this we have been approached by a number of companies wanting us to work with them in developing HER in their market. This can make a huge difference in a business like HER where speed to market and first mover advantage are critical.

Whilst our preferred strategy is a wholly owned operation we have recognized that with the number of potential markets it would be tough in terms of capital and resources to apply this strategy to all markets. We are therefore prepared to look at joint ventures with local companies where this makes sense. Partners could vary from those who have just strong distribution and need us to provide the rest of the structure including product, processing, funding and risk management to those that are already well established banks or insurance companies, who can provide all the ingredients themselves over time but want our input to get it right first time and to get to market quickly.

What is the future for HER?

This is a market that will grow rapidly in every country in the developed world. Just looking at loan settlements in 2006 versus 2005 we see growth rates of 77 per cent in the US, 63 per cent in Australia and 55 per cent in New Zealand. Research of current retirees suggests an eventual take up of over 20 per cent but similar questions put to the next generation of retirees, the baby boomers, suggests much higher levels.

The number of suppliers will increase dramatically as we have already seen in the UK and Australia but the need is there and in many ways the market is supply rather than demand constrained. However the sales cycle is long and suppliers will have to be patient. Those not prepared to take a long term view will depart the market. There will always be other products with a faster payback.

There will be significant product innovation, not gimmicky features that only make the product more complex but a merging with insurance and annuity products. Regulation is inevitable but it should be welcomed and achieved as quickly as possible. Delay will only slow down the development of the market. Overall the future for HER worldwide is exciting and as one of the world's leading specialists we are really looking forward to it.