

# Examining the role of residential property as a basis for augmenting income in retirement.

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July 2018



**Memorial**  
University of Newfoundland

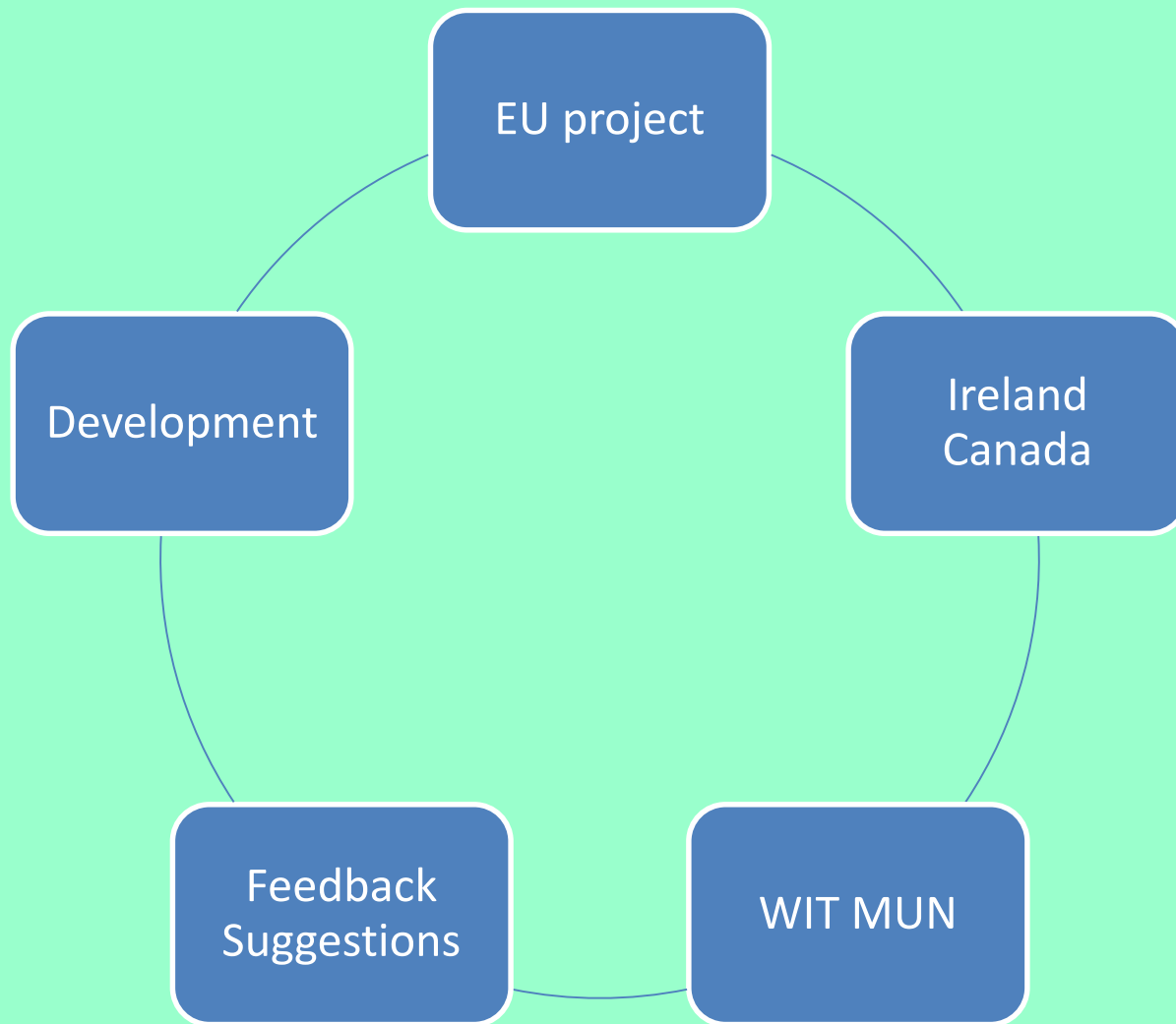
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# Purpose of presentation



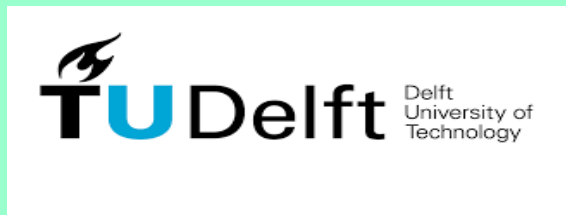
# Structure

- Context & Objectives
- Goals for Provision of Retirement Income
- Pension Systems & Retirement Income Pillars
- Policy parameters
- Some findings
- Discussion / Research Avenues

# Research Objectives

- Examine the **potential for integrating** residential property with private pensions as a basis for augmenting retirement income.
- Produce a **body of knowledge** on the extent to which housing assets can be used as a source for private pensions in retirement
- Gather evidence and details of how such **products** can be **designed** and supported by commercial, non-profit and state led initiatives.

# Research Consortium





**DG Employment & Social Affairs**



**Irish Life**



**An tÚdarás Pinsean**  
**The Pensions Authority**

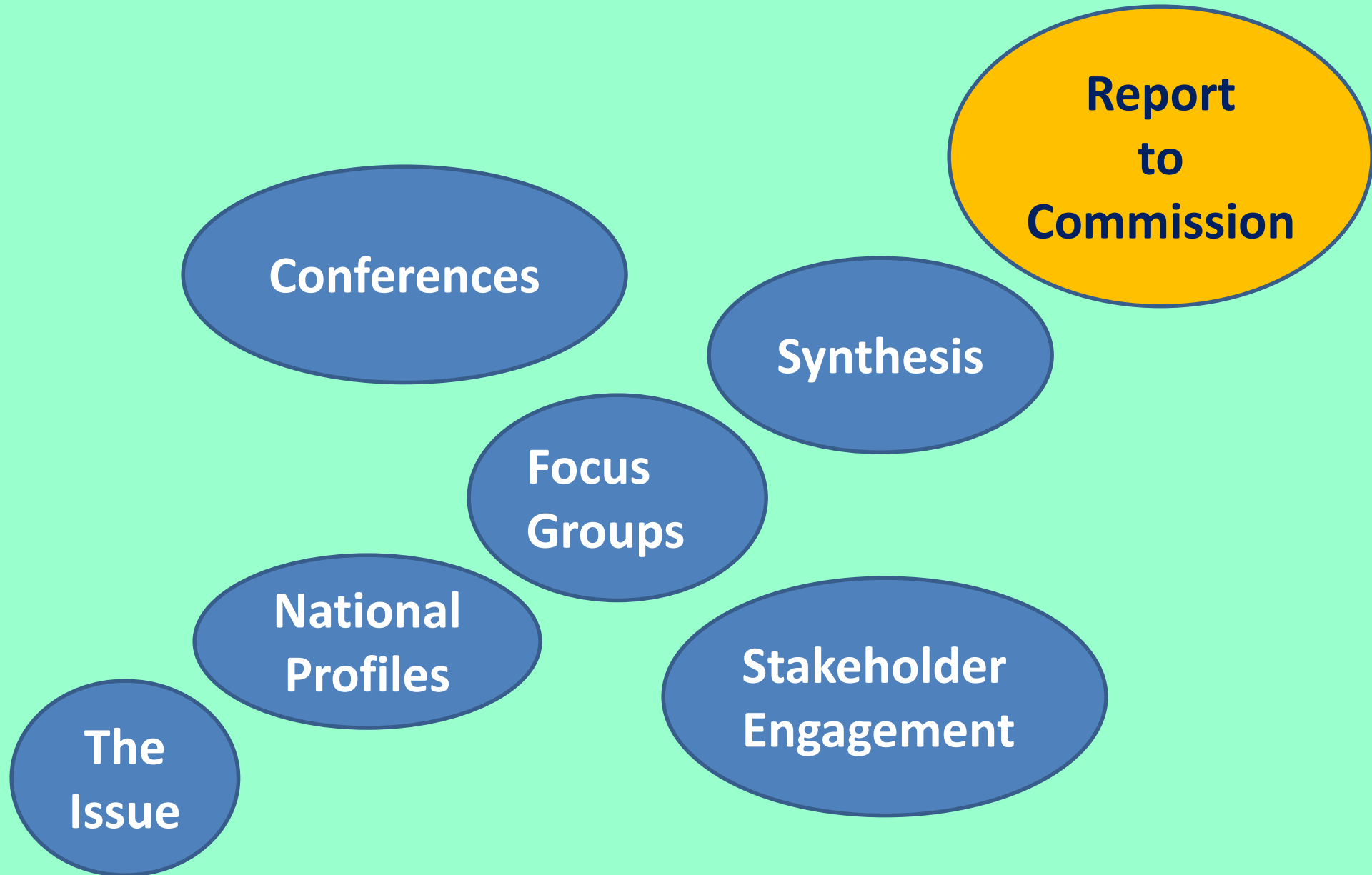


**NEW IRELAND**  
**ASSURANCE**

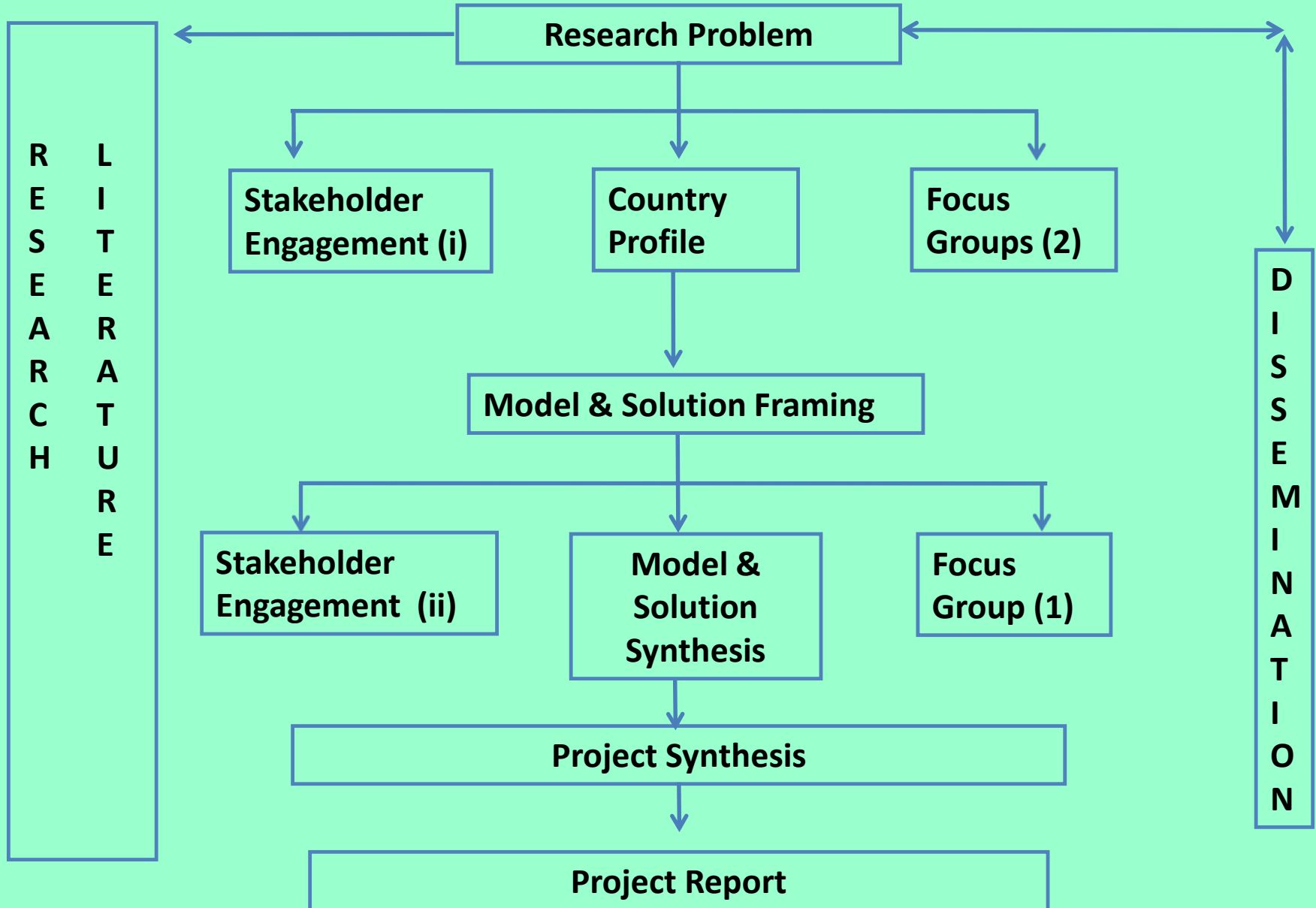


**Seniors Money**

# The European Project



# Research Design





# The Individual Household Challenge

How to achieve the enjoyment of housing in conjunction with a satisfactory level of income in retirement?



# Equity Release

Conversion of owned residential property into cash for use by the occupier(s).

If you do not build up equity in this form, would you be better off?



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# Actual & Potential Policy Goals

- Maintenance of a desired level of pre retirement income ( *gross / net ?* )
- Avoidance of poverty in old age (*an income floor*)
- Predictable sustainable levels of income for pensioners (*an assurance in old age* )

# Other Possible Goals

- Redistribution & equity (**social cohesion**)
- Balanced cost of sustaining pensions with competitiveness of the economy (**trade, investment, jobs**)
- Economy in administration & operation (**effectiveness, rent tolerable**)
- Positive contribution to the socio-economic, physical and intangible, asset base. (***externalities, future platform***)

# Beveridge v Bismarck systems

Criteria	Beveridge	Bismarck
<b>Coverage</b>	Covers entire population	Working people (employed or self employed)
<b>Financed predominantly by</b>	Paid from State Budget	Paid from Social Insurance contributions
<b>Contribution level</b>	Uniform level	Based on wages and salaries
<b>Goal</b>	A subsistence level of income	A desired standard of living

# Classification of Welfare Regimes

Generous replacement rate,  
lower pension age & higher  
public spending

➤ **France, Italy , Greece,  
Spain**

Lower replacement rate,  
higher pension age, lower  
public spending

➤ **USA, UK, NZ, Switzerland,  
Canada, Ireland**

Vanhuyse & Goerres  
(2011)





# Canadian Retirement Income System Structure

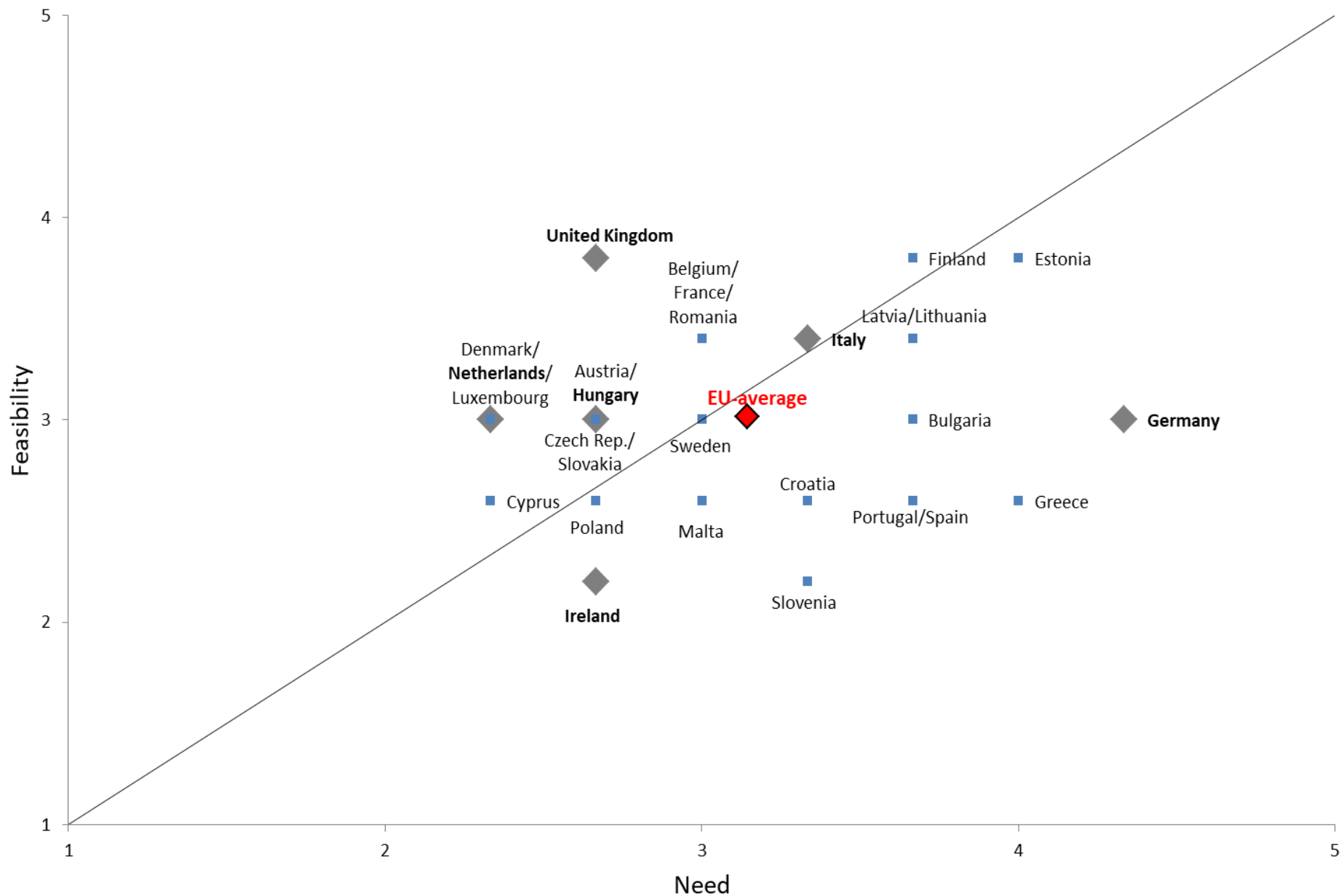
- **Pillar 1** : Income funded by Federal taxation (OAS)
- **Pillar 2** : Earnings related Income funded by Social Security with a ceiling on benefit ( Canada & Québec pension plans) – 25% of wages
- **Pillar 3**: Income funded by private pension plans
- **Pillar 4** : Income from other savings & investments, continued employment, property income and subsidies, and health subsidies

# Irish Retirement Income System

- **Pillar 1** : Social Insurance & Welfare benefits  
(non contributory & contributory social insurance pension)
- **Pillar 2** : Occupational Pensions (State & Private)
- **Pillar 3** : Other savings including personal pensions & housing
- **Pillar 4** : Continued working



# Need and feasibility for ERS compared by country



# ERS need vs. feasibility: country clusters

	<b>Need</b>		
	<i>low</i>	<i>medium</i>	<i>high</i>
<b>F E A S I B I L I T Y</b>	<i>low</i>	-	Ireland, Slovenia
	<i>medium</i>	Cyprus, Luxemburg, Denmark Netherlands	Austria, Belgium, Croatia, Czech Republic France, Hungary, Italy, Malta Poland Romania, Slovakia, Sweden
	<i>high</i>	-	Bulgaria, Germany, Greece, Latvia Lithuania, Portugal, Spain Estonia, Finland
			<i>Hennecke et al. (2017)</i>

# Summary : Estimating ERS market potential



Older Population (aged e.g. 65+)

Homeownership

No mortgage, high equity value

Income status,  
pension gap

Attitudes,  
bequest  
motive

Market potential  
of ERS

# Ireland's Profile

Variables (2015 & 2016 data)	Scores
Population	4.7 Million
Residential Units	2 Million
Private Pension Coverage Rate	46%
Net Pension Replacement Ratio	42%
No. of Registered ERS Providers	18
No. of Active ERS Suppliers	1

# Some demographics

( Stats Canada & CSO)

Canada	Pop	Ireland	Pop
Total (2016)	36.3m	Total (2016)	4.7m
Toronto	4.7m	Dublin	1.2m
Montreal	3.6m	Cork	0.2m
Vancouver	2.0m	Limerick	0.09m
Calgary	1.0m	Galway	0.07m
Edmonton	0.9m	Waterford	0.05m

# Pensioner Dependency Ratios

Year	Canada	Ireland
2015	25.9%	19%
2050	46.4%	47.8%

Source : OECD

# Net Replacement Rates

	Canada	Ireland
<b>Actual 2016</b>	<b>53%</b>	<b>42%</b>
<b>Target for Public Policy</b>	<b>70%</b>	<b>50%</b>

Source : OECD

# Current Challenges

- *Central Bank Macro Prudential rules say banks will lend 3.5 times incomes and up to maximum of 80% / 90% (LTV) loan to property value for repeat / first time buyers.*
- *An average 3 bedroom semi detached new build in Dublin sells for about €320k ( +++ ) and 1 bed apartment €200k ( +++ )*
- *Rents in Dublin for similar house €1,279 per month and apartment €800. Wide variation depending on location.*



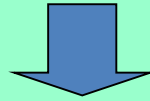
# Settlement Patterns

- *Owner Occupied (primarily houses) : 70.1% in 2016 which is lowest proportion since 1971.*
- *Of total population 1.9m (about 40%) live in the Greater Dublin area*
- *Total housing units*
  - *2,022k (2016) v 2,004k (2011)*
  - *1,763k occupied in 2016*

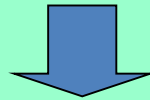


# Core Conceptual Framework

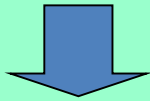
**Consumption Savings & Investment**



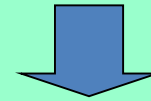
**Lifecycle Framework**



**Accumulation, Decumulation and / or Bequest**



**Working Life:  
Savings &  
Investment**



**Post retirement age:  
Release for Consumption,  
Donate or Bequeath**

# Some Findings from the Focus groups

- Range of ways for using property
- Social, Psychological, & Financial Motives
- Actors matter
- Trust critical
- Competition needed to reduce price
- Niche rather than mass solution
- Not first preference



# Approaches

- *When to offer solutions : Young and Old*
- *How to offer solutions : **Property, Income, Capital***
- *Who matters: **State, Households, Suppliers, Society***
- *What matters in solutions :  
  
Benefits, Costs, Interventions,  
  
Behaviours, Scale, Market Segments,  
  
Cultural Compatibility, Time Frames*



# When to offer a solution?

- 1. At/close to NRA: 57 to 68**  
*(has property but insufficient income)*
- 2. At or close to clearing mortgage**  
*(has increased savings capacity)*
- 3. At / close to household formation : 25-35**  
*(has no property and no private pension)*





# 1. Issues at play in 25-35

- *Early in the income lifecycle.*
- *Need deposit for residence purchase which implies savings or the Bank of Mom & Dad or an inheritance.*
- *High rents limit savings capacity.*
- *Cost and volume of supply of property determines choice of place, size and nature of residence*
- *Increased rental propensity evident*



## 2. Issues at play age 48-56

- *Increased consumption and savings capacity.*
- *Balance between the two reflects household demands and priorities.*
- *Approaching retirement with property equity.*
- *Potential modest retirement fund to augment retirement income and/or leverage equity release.*
- *Affected by family formation configuration.*



### 3. Issues at play 57+

- *Current residence and/or current community.*
- *Bequest - some desire / some indifferent*
- *Current equity release model considered expensive.*
- *May have sequential preferences in property deployment.*
- *NNEG essential.*
- *Trust*

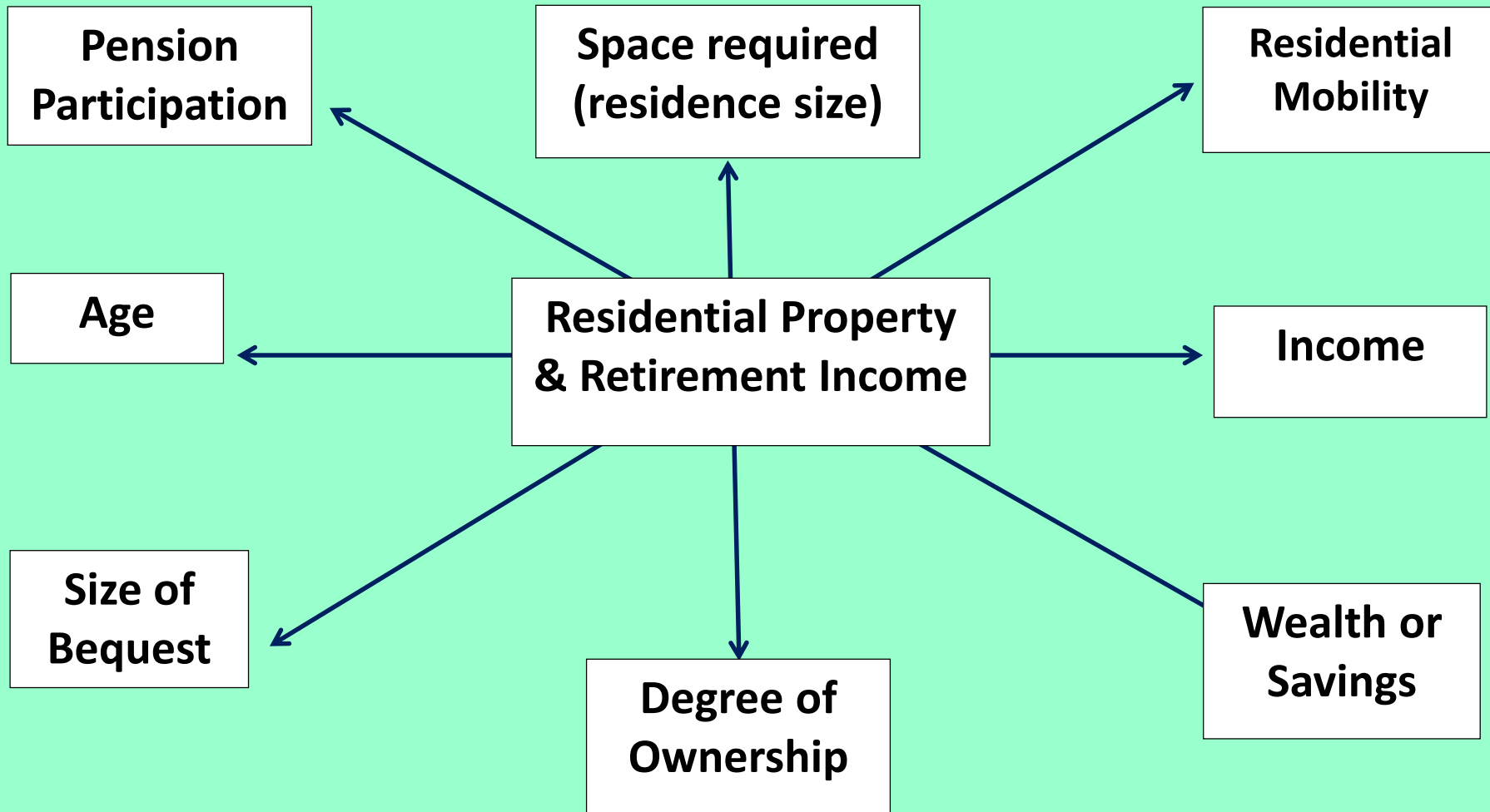




# Possible Solutions for Age Cohorts

57 years – 75 years	45 years – 55 years	25 years – 35 years
Home Equity Release with debt linked to housing prices	Savings for Servicing Home Equity Release	Lifetime tenancy with private pension (bundled)
		Lifetime home purchase & home equity release (bundled)
		Shared unitised home purchase & home equity release
		Home purchase with interest relief allocated to a pension

# Residential Property & Retirement Income: an 8 dimensional space



# Some related recent policy issues

- Normal retirement age.
- Qualifying contributory years.
- Determination of what constitutes a contributory year & when the clock starts.
- Linking of pensions to benchmarks or by way of indexation.
- Tax treatment of private pension contributions, of income and gains, of benefits.
- Mandatory pension participation.
- Balance between public and private and the pillars

# Some policy choices & challenges

- Means testing v universal benefits
- National / Federal v Local / Provincial supports
- Cost, Contribution, Qualification
- Individualisation v Household.
- Disincentive effect regarding private savings.
- Savings as a fuel for public and private capital formation.
- Elemental v systemic perspectives on income, ageing, care, housing, participation.

# Individual responses to retirement

Dean Connor (CEO Sun Life ) was optimistic about the retirement prospects for most Canadians, saying those without enough money learn to innovate – they delay retirement, cut back on spending, sell their homes or look to family for support.



# Intergenerational Solidarity

*Many worry that the grumblings of pension envy will eventually explode in a full blown crisis as young workers saddled with student debt mortgages and stagnant incomes age into retirement.*

**McMahon & McQueen 2014**



[www.jrf.org.uk/blog](http://www.jrf.org.uk/blog)

“Today’s ‘just about managing’ can quickly become tomorrow’s poverty, or even destitution.”

Katie Schmuecker – Head of Policy

**JRF** JOSEPH ROWNTREE FOUNDATION

# Next steps

- Decumulation phase(s) will be examined
- Fact finding & cultural sensing regarding Canada
- Contrasting profiles
- Timely for Ireland – Pensions Roadmap Consultation.
- Seek Canadian perspectives from a variety of sources
- Potential for joint study Canada/Ireland/EU partners



# Some Reference Organisations

- Canadian Society of Actuaries
- Rotman International Centre for Pensions Management- University of Toronto
- Fraser Institute, Vancouver BC
- Statistics Canada
- National Pensions Hub, Global Risk Institute, Toronto
- CD Howe Institute, Toronto



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