

MAKE ROOM FOR LIFE OR SAVE MONEY FOR OLD-AGE? A COMPARATIVE STUDY REGARDING THE ROLE OF RESIDENTIAL PROPERTY FOR OLD-AGE PROVISION¹

Jörg Dötsch²
Andrássy University, Budapest

Europe's social security systems face enormous challenges. Most of the existing pension systems do not seem to be sustainable while in almost all countries the population is ageing rapidly. That means that private pension provision is becoming increasingly important.

“Make room for life” is the slogan of the world's dominant furniture company. It is a catchy phrase because room for life is indeed of great importance for almost everybody in western societies. Most people there spend considerable amounts of their income on housing. In addition to furniture, a great deal is spent on rents or for acquiring one's own dwelling. These expenditures result in this money not being available for old age security. People face the dilemma that they are able to save money either for their own dwelling or for their old age security in the form of pension contributions. But they cannot afford both. And lot of people decide to spend their money on the needs of the present. Thus, despite the national pension systems not seeming to be sustainable, there is considerable economic wealth throughout the union in the form of residential property.

The needs for residential property change over a life cycle. Young couples have a greater desire for space than grandparents, which they are perhaps going to be some day. Income in old age will be significantly lower, while maintenance costs for an older building may increase. Apart from that, with increasing age the residents may require personal care. Over the life cycle of a homeowner there will be a point when she/he is wealthy in the sense of her/his property but faces a lack of liquidity. Would it have been better to have saved money for old age?

Within the framework of a research project called “Integrating residential property with private pensions in the EU” which has received funding from the European Union's EaSi Grant Programme under grant agreement No VS/2015/0218, researchers of six EU-countries worked on solutions to the problem described above: how residential property can be used to ensure liquidity in old age. The participants were the *Institut für Finanzdienstleistungen* (Hamburg), *Andrássy University* (Hungary), the University of Rostock (Germany), the Waterford Institute of Technology (Ireland), Delft University of Technology (the Netherlands), Libera Università Maria Ss. Assunta (Italy) and Queen's University Belfast (United Kingdom). Between 2015 and 2017, they focused

¹ The full article “Wohnst Du noch oder sparst Du schon? Eine vergleichende Untersuchung zur Rolle des Wohneigentums für die Altersvorsorge” is available on the CD enclosed with this publication.

² Dr. Jörg Dötsch, Associate Professor, Chair of Economic Policy, Andrássy University, Pollack Mihály tér 3., H-1088 Budapest, Hungary, joerg.doetsch@andrassyuni.hu

on a financial product, quite well-known in Germany by the terms Immobilienrente, Immobilienverzehr, Leibrente or Umkehrhypothek, in English as Equity Release Scheme (in the following: ERS). ERS "...transform fixed assets in owner occupied dwellings into liquid assets for private pensions. They thus enable a homeowner to access the wealth accumulated in the form of his or her home, while being able to continue to live in it. An illiquid asset becomes a source of liquidity, mainly for consumption purposes." (Reifner et al. 2009a, I). There are several variants of this product. In general, two main types can be distinguished: *The Loan Model ERS* "...provide a loan that will eventually be repaid from the sale proceeds of the property." (ibid.) On the other hand, the *Sale Model ERS* "...involve an immediate sale of the property but provide for the right to remain in occupation and to use the cash price for income in retirement." (ibid.).

The project analysed, comparatively, the (potential) markets for ERS to develop concrete, Europe-wide, applicable product solutions. This had to take into account an extraordinary range of economic and social aspects, including the pension systems with a focus on private pension schemes, the housing and mortgage markets, the existing markets for ERS and consumer behaviour. Each relevant aspect is of comparatively high complexity. According to this the final report prepared for the European Commission (freely accessible on the internet, see Al-Umaray 2018a, 2018b) covered several hundred pages. This paper presents an overview concerning the interrelation of private pension provision and residential property. The first part explains the design of the research project. In the next two sections, the national background regarding pension provision, housing markets and markets for ERS are explained. The explanations given are based on the six country case studies and the cross sectional study provided for the European Commission as a decisive project deliverable in 2016. The respective country case studies was published recently (June 2018) in Springer (see Eckardt/Dötsch/Okruh).

The study clearly illustrates that on the one hand residential property will obviously become more important with regard to future old-age provision. But on the other hand, even starting from the fact that the member states of the European Union face similar problems a one-size-fits-all-solution does not seem to be feasible. The regulatory, social and economic background in the member states is too diverse. And there are, as the focus group interviews conducted in all countries of the consortium clearly illustrated, enormous cultural differences which shape people's attitude to homeownership, financial providers and even the state. Neither regarding private pension provision, nor regarding housing and mortgage markets can the countries covered by the study be compiled into feasible clusters. At the very most it is possible to segment mere orientation, as for example done for the publication of the case studies, which shows three categories: 1) Well-developed markets for private pensions and homeownership (in this case Ireland, the Netherlands and the United Kingdom), 2) countries with a high degree of homeownership, but a rather low degree of private pensions (in this case Italy and Hungary) and, finally 3) countries with a low degree of homeownership and a low degree of private pensions (see Eckardt/Dötsch/Okruh 2018, viif). We have no reason to assume that this picture will change when comparing all EU member states – and this is obviously too few for a market development for one product.

Nevertheless it may be worthwhile to think about other solutions. For example, if platforms may be helpful to coordinate the interests of the diverse stakeholders throughout different countries. And apart from that, there is still a couple of relevant aspects of this field, which still have not been analysed scientifically, such as issues of consumer protection or the interrelationship between the growing challenge of care, care systems and old-age provision.