CHAPTER 2

WEALTH AND DEBT

Asset accumulation

2.1 There is a common public perception that the current generation of retirees and those approaching retirement have substantial wealth. Certainly, older people have a high and growing—due to the ageing of the population—percentage of total household wealth. According to Kelly and Harding, the current generation of older Australians are the wealthiest yet.[1] Other research has similar findings, noting that the share of wealth held by people aged 65 and over rose from 17 per cent in 1986 to 27 per cent in 1997, while the proportion of the population in that age group increased by a much smaller margin—from 10.5 per cent to 12.1 per cent.[2] This represents an increase in the average wealth of older people of 90 per cent in this period.[3] More recent research has noted the continuation of this trend, with those aged 65 and above possessing 22.9 per cent of total household wealth, with those aged 55-64 possessing 24.3 per cent.[4]

2.2 Research into the financial circumstances of older people has noted that between 1999 and June 2004, 30 per cent of partial-rate age pensioners increased their total assets in real terms, including three per cent that lost eligibility for the pension due to assets growth. Another 30 per cent maintained 80-100 per cent of the value of their assets in real terms, with most of the devaluation due to inflation rather than drawing down on the nominal value.[5]

2.3 In its submission to the inquiry, FACSIA reported similar findings. It cited ABS data that indicated households headed by a person aged 65 or older hold $778 billion in net assets. The average and median wealth levels of older households ($566 600 and $355 800 respectively) exceeded those of younger households ($355 800 and $282 900 respectively). These patterns were also reflected in terms of comparisons of couple households and single person households.[6]

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1 Simon Kelly & Ann Harding, 'Don't Rely on the Old Folks' Money: Inheritance Patterns in Australia', December 2006, *Elder Law Review Volume 4*, p. 1.

2 Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, pp 5-6.

3 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 5.

4 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, pp 1, 16, 18.

5 Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, p. 16.

6 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 3.

2.4 Older people enjoy a comparatively high rate of home ownership with 82.1 per cent owner occupiers, and an average home and contents value of $409 900. Older couples enjoy a comparatively higher rate of owner occupancy than older singles with 90.4 per cent compared to 74.5 per cent. The home ownership rate for age pensioners was lower at 70 per cent. Home ownership helps the living standards of those in these circumstances by reducing costs, compared to those in rental accommodation. In addition to the financial benefits, older people that own their homes enjoy greater stability and housing reliability. FACSIA reported that many older people prefer stability of housing, with a familiarity and attachment to their local area, its facilities and friends in the area, more than the house itself.[7]

2.5 The assets exemption for home-ownership for eligibility for the aged pension means that some retirees have a valuable asset combined with a limited income stream. However, FACSIA submitted that there was little evidence to suggest older people were asset rich and income poor. In particular, FACSIA noted that only 16 per cent of older households are in the top half of the wealth distribution but the bottom half of the income distribution. Further, only 1.3 per cent of the older population had wealth in the highest quartile and income in the lowest quartile.[8]

2.6 Other evidence considered by the inquiry suggests that a focus on average or demographic wealth accumulation belies the fact that the distribution of wealth is often uneven.[9] For example, in 2002, 80 per cent of those aged 65 and above only possessed 37 per cent of the wealth in this age bracket.[10] Consequently, many older people remain financially and socially disadvantaged.

2.7 Although some pensioners are able to generate income additional to their pensions such as through investments in other assets, the Combined Pensioners and Superannuants Association argued that the capacity to do so declines with age. By the age of 75, the age pension tends to be the only income received.[11] Also, the National Institute of Accountants (NIA) warned that changes to accounting standards have resulted in more conservative investment strategies for pension funds, which means that returns are not being maximised.[12]

7 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 6-7.

8 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 10.

9 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 2.

10 Simon Kelly & Ann Harding, 'Don't Rely on the Old Folks' Money: Inheritance Patterns in Australia', December 2006, *Elder Law Review Volume 4*, pp 1, 3.

11 Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, p. 4.

12 National Institute of Accountants, *Submission 67*, p. 6.

Realisation and conversion of asset value

2.8 Consideration of wealth in determining capacity to afford cost of living pressures can be misleading. Research by AMP and the National Centre for Social and Economic Modelling (NATSEM) has highlighted that a large proportion of the wealth of older Australians is preserved in illiquid assets, most notably the family home.[13] The growth in the share of total household wealth experienced by older people over the past decade has been attributable largely to the housing price boom. Therefore, although many older people are wealthy on paper, utilisation of that wealth would require sale of the family home, which many would be highly reluctant to consider.

2.9 The Australian Housing and Urban Research Institute (AHURI) reported that older people are most likely to move as they age as a result of increasing problems with house and garden maintenance, particularly with the death of a spouse or declining health.

2.10 According to a survey by AHURI, 82.8 per cent of respondents viewed the family home as an investment for the future, 86 per cent believed home-ownership increased choices about lifestyle and 74.8 per cent argued that it was an investment that could be sold or borrowed against to fund requirements in old age. AHURI considered that this underlined the common perception of home ownership providing an important enabler to a person's future lifestyle choices.[14] The survey found that the attachment of home-owners was more likely to be to their neighbourhood than the home itself. AHURI argued:

> The symbolic dimension of the home as the foundation for personal identity is now somewhat blurred as the values of consumption and lifestyle begin to take precedence.[15]

2.11 However, according to the Brotherhood of St Laurence, many retirees actually find it very difficult to convert assets into a means that can enhance their standard of living. This is because the boom in property values has also proportionally increased the competition, availability and costs associated with purchasing retirement villages and lifestyle apartments. Consequently, an increasing proportion of homeowners are being financially excluded from these housing options due to the lower value of their family homes. According to the Brotherhood of St Laurence, many homeowners have now joined non-homeowners in suffering the problem of affordable housing options for older people.[16]

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13 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, pp 1, 16, 18.

14 AHURI, *Ageing in place: intergenerational and intrafamilial housing transfers and shifts in later life: AHURI Final Report No. 88,* October 2005, p. ix.

15 AHURI, *Ageing in place: intergenerational and intrafamilial housing transfers and shifts in later life: AHURI Final Report No. 88,* October 2005, p. ix.

16 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 17.

Debt levels

2.12 FACSIA argued that older households possess much lower levels of debt compared to other households. Further, it maintained that only 2-3 per cent of older people (aged 65 and over) are still repaying a mortgage, which is a tenth of the national average.[17] NATSEM and AMP research has also reported that debt levels decrease with age and retired households generally have fewer debts than households where there is continuing employment. The debt levels of retired households are almost a quarter of those of employed households, but it is probable that superannuation is used to reduce debt.[18]

2.13 However, while other evidence considered by the inquiry confirmed these arguments, it also highlighted that older people appear to be taking greater debt into retirement than previously was the case. Almost 90 per cent of older Australians aged 60-64 have paid off their mortgages on the family home, according to AMP and NATSEM.[19] This represents a fall from over twenty years ago. In 1986, 98 per cent of retiree households and 94 per cent of households with one person in the older age bracket had paid off their mortgage.[20]

2.14 The submission of the Brotherhood of St Laurence reported similar findings. It argued that while 79 per cent of 65 year old households own their own homes, this includes only 57 per cent of those aged 55 to 64. In 1982, 56 per cent of those aged 50-59 owned their own home without a mortgage and by 2003-04 this had fallen to 46 per cent. The percentage living in a home where they are paying a mortgage went from 28 per cent in 1982 to 38 per cent in 2003-04.[21] Those on fixed incomes have greater difficulty servicing loans that accrue compound debt.

2.15 The higher proportion of retired households that own their own homes suggest superannuation has been used to pay off mortgages.[22] This is also reflected in research by FACSIA[23] and evidence provided by Hobsons Bay City Council. The latter's community profile has indicated home ownership levels increase consistently with

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17 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp. 3, 7.

18 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 8.

19 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, pp. 2, 9-10.

20 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 7.

21 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 15.

22 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 8.

23 Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, p. 10.

age, but drop for persons aged 85 and over. Similarly, the proportion of those renting or paying off a mortgage decreases with age, but increases for persons aged 85 and over. The submission does not draw a definitive conclusion for this phenomenon but speculates:

> This may be due to persons aged 85 years or more having used up their retirement benefits and being forced to sell or re-mortgage their home when their funds run out.[24]

2.16 The FACSIA research formed a similar conclusion. But both the FACSIA research and the Hobsons Bay City Council raised the other possibility that this age group simply reached retirement in a less affluent and superannuation-focussed period and accumulated fewer retirement funds over the course of their lives than younger retirement cohorts.

2.17 The Association of Independent Retirees (AIR) also reported a significant decline in home ownership after the age of 85, based on a survey of its members. It concluded that this was due to the increasing cost of maintenance due to loss of a male partner, reduced physical capability to conduct maintenance and increased age of homes.[25]

Dependents and financial pressures later in life

2.18 Whether or not older people continue to have dependents appears to be a key influence on lifestyle choices that affect retirement. Typically, Australians who have retired or are of retirement age have had no dependent children. However more recently, according to research by AMP and NATSEM, many in this demographic still have dependent children. More than half of people aged 50-54 have dependent children and 13 per cent of those aged 65-69. The research noted the financial freedom associated with not having dependent children is not necessarily felt by this age-group, especially the younger members.[26] This has been reflected in the debt settlement among people in retirement or of retirement age, as aforementioned with respect to house ownership and mortgage liquidation. The National Institute of Accountants made similar observations noting that the increasing trend towards delayed marriage and child-birth, and subsequent marriages, are resulting in extended periods into later ages of associated financial obligations.[27]

2.19 Consequently, the proportion of couples aged 60-64 with children who own their homes outright is 75 per cent, which is lower than for couples in this age group without children. AMP and NATSEM concluded that this reflects the greater financial

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24 Hobsons Bay City Council, *Submission 3, Ageing Community Profile: Ageing Well Strategy 2007-2017*, February 2007, p. 27.

25 Association of Independent Retirees, *Submission 2,* p. 7.

26 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 1.

27 National Institute of Accountants, *Submission 67,* p. 6.

strain suffered by those who continue to have dependent children. This trend is also reflected in the level of broader debt experienced by older couples compared to older singles in Australia. Whereas a majority of single people aged 60-64 report that they did not have any debt, two-thirds of couple households and three-quarters of couple households with dependent children report still having debt. Most of this debt is attributable to credit cards. Further, while most Australians aged 60-64 have little higher education debt, almost one quarter of those with children reported having such a debt.[28]

2.20 Since 2002, the workforce participation rates of older men have increased. Although there are various explanations for this trend, it could partly be the result of people having greater financial responsibility, expenses and debts in the lead up to retirement. These responsibilities are partly the result of having children later in life and, consequently, those children undertaking secondary and tertiary education later. Also, the increase in the real prices of housing has meant that mortgages have increased and the time taken to pay off the mortgages has similarly increased.[29] AMP and NATSEM reported similar findings that greater financial burdens imposed by having children also influence the decision to take retirement and the potential phase-out from the workforce. People without children and of retirement age are three times more likely to retire than those with children.[30]

Reverse mortgages and equity conversion

2.21 During the inquiry, NIA and Australian Seniors Finance (ASF) highlighted the increasing use of reverse mortgages - or home equity conversion loans - by older people. These allow the retiree to exploit equity in their house while living in the family home, but do not require repayments until the owner leaves the home to enter aged care, sells the home or dies. NIA reported that the average reverse mortgage was $30 000 to $40 000, and that the industry had grown from nothing five years ago to being worth $647 million 2006 and is projected to reach a value of $3 billion by 2010. Home reversion schemes are also becoming increasingly popular, which involves the sale of the family home to a third party and then leasing the property back.[31]

2.22 ASF pointed to various reasons for reverse mortgages including financing renovations, capital purchases, vacations and accommodation bonds for residential care. However, ASF also argued that the pension was inadequate to help older Australians meet cost of living pressures and noted that some retirees were being forced to rely on credit to finance their living expenses. This included health expenses,

28 AMP & the National Centre for Social and Economic Modelling, 'Baby boomers – doing it for themselves', March 2007, *AMP.NATSEM Income and Wealth Report Issue 16*, pp 2, 9-10.

29 Parliamentary Library Economic, Commerce and Industrial Relations Section, *An Adequate Superannuation-based Retirement Income?*, 16 March 2006, pp 13-14.

30 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 3.

31 National Institute of Accountants, *Submission 67*, p. 10.

dental care, local government rates and taxes, credit card debt and assisting with the education of grandchildren.[32] At the public hearing in Melbourne, ASF reiterated its concern that reverse mortgages were primarily being used to supplement the incomes of older people and meet needed expenses such as house maintenance and repairs. It maintained that this finding was the result of annual independent research into the attitudes and needs of older people. ASF asserted:

> Seniors who have accessed reverse mortgages are doing it for life needs. Sadly, some of them are doing it just to make ends meet. The majority of our loans and the majority of the industry's loans are to do things like renovate houses—not for lavish things, but to allow seniors to stay in their own homes and access some of the federal and state government care schemes.[33]

2.23 ASF also provided evidence that some older people utilise reverse mortgages to fund lifestyle choices, such as visiting overseas grandchildren or holidays, but that this constituted a minority. Others, often with limited incomes but valuable home assets, seek reverse mortgages to distribute their estates to their children at the time of need, rather than death.[34]

2.24 NIA highlighted the potential adverse effects of reverse mortgages, notably the impact of compounding interest, which can erode or exceed the value of the asset. However, it noted that most providers include 'no negative equity guarantees' to prevent this situation.[35]

2.25 ASF noted that despite initial reluctance, since 2004 a greater proportion of older people had accepted reverse mortgage and other equity release products. ASF provided evidence that as at December 2006 there were 27 500 reverse mortgages in Australia, constituting $1.6 billion. Further, ASF expected that as of August 2007 there were approximately 30 000 reverse mortgages representing $2 billion. The average reverse mortgage is about $50 000, with older people generally being prudent about their level of debt incurred through reverse mortgages. Some lenders, such as ASF, provide a maximum loan value ratio to cap the amount that can be borrowed at certain ages to prevent too great an escalation of debt. Repayment is required either on the death of the last resident or five years following the relocation of the last resident to permanent care.[36]

2.26 Mr Michael O'Neill from National Seniors Australia emphasised that many older people have limited options for generating additional income to meet cost of living rises. He argued that this can lead to poor or risky decision-making where

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32 Australian Seniors Finance, *Submission 42*, pp 7-8.

33 *Committee Hansard*, 23 August 2007, p. 1.

34 *Committee Hansard*, 23 August 2007, p. 10.

35 National Institute of Accountants, *Submission 67*, p. 10.

36 *Committee Hansard*, 23 August 2007, pp 4, 6 & 9.

immediate pressures take precedence over longer-term needs. Within this context Mr O'Neill noted the growing interest in reverse mortgages.[37] Along these lines, Mrs Maida Lilley from Older People Speak Out told the committee that many senior organisations are concerned about the future financial situation of older people accessing reverse mortgages.[38]

Conclusion

2.27 The evidence before the committee clearly demonstrates the complexity of assessing the financial situation of older people. Irrespective of their incomes, generally many older people are in a more advantageous financial position than much of the rest of the population with respect to assets and debt. Therefore, measures of the capacity of older people to afford the cost of living must take into consideration factors such as rates of home ownership and the consequently lower housing costs associated with these rates. But this also highlights the importance of ensuring there is adequate assistance for the large minority who, for whatever reasons, find themselves in a disadvantaged financial position with respect to their peers. For example, the Government needs to ensure adequate policies exist to assist the 30 per cent of aged pensioners who rely on the private, public or community housing rental market.

2.28 It is also apparent that, increasingly, people are having greater financial responsibilities later in life. This is the result of various factors including having children later in life, servicing greater mortgages as a result of higher house prices, financially supporting children through higher levels of education and growing instances of older Australians taking on 'kinship care' responsibilities. These factors will probably increase in emphasis with future cohorts of retirees, as housing prices have escalated over the past decade, access to tertiary education has improved and the cost of education has shifted much more to private individuals. These factors have resulted in greater debt being incurred at a younger age and the delay of entry into the workforce.

2.29 The committee considers that home-ownership is a key enabler for older people in realising greater future lifestyle choices. It provides an investment for future life-style decisions and increases the flexibility of decision-making because homes can be sold or borrowed against to provide for needs in old age. However, the form with which that equity is accessed must be carefully considered to avoid forcing older people into a perpetual cycle of debt that could result in a reverse mortgage debt compounding to greater than anticipated levels, particularly as life expectancy continues to increase.

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37 Mr Michael O'Neill, Chief Executive, National Seniors Australia, *Committee Hansard*, 8 February 2008, p. 37.

38 Mrs Maida Lilley, Older People Speak Out, *Committee Hansard*, 8 February 2008, p. 28.