Response to Productivity Commission Draft Report: *Caring For Older Australians*

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17 March 2011

Deloitte.

Contents

Executive Summary

This submission responds to the Productivity Commission's draft report (2011) on *Caring for Older Australians*, with a particular focus on the Commission's call for government to be more closely involved in the market for home equity release. Deloitte Access Economics and Homesafe Solutions support this call, but stop short of endorsing the establishment of an exclusive government-run equity release scheme.

Home reversion is a specific type of equity release, also known as debt-free equity release, that enables retirees to sell a share in the future sale proceeds of their home in exchange for cash in the form of a lump sum or income stream. Importantly, home reversion allows Australian retirees to make co-contributions to their retirement and aged care from their private savings, helping to mitigate longevity risk and reducing pressure on public finances, while ensuring unencumbered access by retirees to their homes for as long as they live.

Given that (i) the family home remains the major source of accumulated wealth for older Australians, (ii) co-contribution is inevitable given pressure on public finances, and (iii) intergenerational equity suggests that wealthy Baby Boomers should contribute to the funding of their later years, the Commission's support for home equity release is to be welcomed.

Obstacles to market development

The market for home reversion in Australia is in its infancy. There are factors obstructing both the demand for home reversion and the supply of investment funds available to finance home reversion. As a result, the private market for home reversion might not develop fully without government support.

In relation to demand for home reversion, the primary obstacle is poor awareness and low financial literacy among consumers. In particular, the life tenancy implicit in the contractual structure of home reversion may be poorly understood. However, information gaps can be filled through advertising, product awareness campaigns and government-backed education programs.

Supply-side factors are more complex, since investors must be encouraged to acquire units or shares in home reversion trust funds. The pooled investments in owner-occupied housing made possible through home reversion represent a new asset class for institutional investors, with benefits including exposure to capital gains in detached houses. However, investors may have concerns about the duration of the underlying investment, particularly in the absence of an active market where they can liquidate their holdings.

There is a classic market failure on the supply side of the market for home reversion: the collectively rational action (investing in a new asset class) is privately irrational (given the inability to sell out of an illiquid market). A 'bell-wether' investor is required to break this cycle of illiquidity and achieve the critical mass needed for a liquid market. This is where a role for government is apparent.

Government participation

The potential benefits of home reversion to retirees and investors are apparent. However, government would also benefit from wider take-up of home reversion, since it would:

- ease pressure on budget outlays, without sacrificing retirees' standard of living;
- improve intergenerational equity of the tax system;
- seed a market for innovative retirement income products; and
- improve self-management of longevity risk by encouraging people to liquefy an existing private asset, rather than pressing government to sell annuities and accumulate assets on public account.

On the demand side, government can facilitate market development by establishing a regulatory framework for home reversion. Specifically, this would encompass:

- the form in which retirees receive their funds;
- the possibility of prudential supervision to manage risks inherent in the new asset portfolio;
- establishing a market for claims on home reversion trust funds with government acting as lead investor and 'buyer of last resort';
- the treatment of potential co-contributions under means testing;
- assessing equity implications within and across generations; and
- providing a safety net for those retired Australians unable to contribute significant funds from private sources.

On the supply-side, the role of government is to facilitate depth and liquidity of the market for claims on home reversion trust funds. Specifically, the role of government on the supply side of the market might encompass:

- first and foremost, the ability to act as 'bell-wether' investor to encourage private sector investors to investigate claims on home reversions as an asset class;
- an implicit 'put' option, which could be priced to limit the subsidy to private investors, and which would resolve concerns over the liquidity of claims on home reversions; and
- occasional entry by government as both buyer and seller of claims, thereby providing greater certainty and transparency about prices in the secondary market through 'smoothing and testing' of market prices, as in the foreign exchange market.

Conclusion

This submission welcomes the Commission's focus on home equity release, particularly home reversion, as a viable source of supplementary funding for aged care in Australia. Rather than recommending the establishment of a government-backed equity release scheme, however, this submission urges the Commission to recommend that government actively consider how best to remove obstacles to the development of the private market in home reversion.

In particular, the Commission should recommend that government investigate how best to support private investment in home reversions, including its own potential role as 'bell-wether' investor and 'buyer of last resort'.

Deloitte Access Economics

1 Home reversion – an idea whose time has come

This submission responds to the Productivity Commission's draft report (2011) on *Caring for Older Australians*. In its report, the Commission presents a comprehensive analysis of issues surrounding the funding and provision of aged care services in Australia against the backdrop of an ageing population.

Our submission focuses on only one dimension of the Commission's draft report, namely, the proposed use of the equity value of people's homes to supplement other private and public sources of funding for aged care. It draws on an earlier Access Economics (2010) report prepared for Bendigo and Adelaide Bank and Homesafe Solutions, which is referenced in the Commission's draft report and which details our analysis of the case for government support of the market for debt-free equity release or home reversion.

Deloitte Access Economics and Homesafe Solutions are greatly encouraged by the Commission's support for home equity release as a means of supplementing the funding of aged care in Australia. Specifically, this submission endorses the Commission's call for government to become more closely involved in the market for equity release schemes, particularly home reversion.

We stop short, however, of endorsing the Commission's Draft Recommendation 7.1 in which the Commission recommends establishment of a government-backed scheme. The view advanced in this submission is that a lesser degree of government involvement is warranted, much less than exclusive government provision of equity release products.

Intervention on this scale is neither necessary nor desirable for the market for home equity release to develop. There may be a case for a residual government-run equity release scheme, akin to the existing Pension Loans Scheme, but targeted to those whose homes are for whatever reason unsuitable for equity release through the private market.

> Government intervention should be directed towards facilitating the development of a flourishing private market for equity release rather than substituting for it.

Home reversion as a source of co-contribution

Home reversion or debt-free equity release is a relatively new development in the Australian financial market. The product enables retirees to sell a share in the future sale proceeds of their home in exchange for a lump sum or income stream such as an annuity. The product was designed to address the growing need for alternative sources of income in retirement to fund a range of expenses, including low-intensity, home-based aged care.

Home reversion is one type of equity release product, while reverse mortgages are another. They differ in several respects. Reverse mortgages involve the accumulation of debt over the life of the contract whereas home reversion is debt-free. Under a reverse mortgage, longevity risk, interest rate risk and property value risk are borne by the homeowner, whereas under home reversion these risks are transferred to the provider.

This is a crucial distinction since homeowners are generally less well placed to bear such risks compared with commercial providers who can diversify and lay off risks to investors through the capital market.

As the Commission points out, the ageing of Australia's population will stretch public resources for funding retirement and aged care to the limit. Between now and 2050, the number of older people (i.e. aged 65 to 84 years) is projected to more than double and the number of very old people (i.e. aged 85 years and over) is expected to more than quadruple (Commonwealth of Australia, 2010).

Australia's ageing population has significant implications for the funding of retirement income and aged care. Government faces the challenge of ensuring that Australians can maintain a reasonable standard of living in retirement, and eventually access affordable aged care when they need it.

Co-contribution according to people's financial means will become an essential component of retirement and aged care funding into the future. This submission endorses the Commission's emphasis on the necessity and desirability of increased co-contribution by Australian retirees to the funding of their own retirement and aged care.

Longevity risk versus dependency risk

The Commission's draft report focuses on funding aged care with an emphasis on residential and high-dependency care. As the Commission points out, while there is uncertainty about when and whether an individual might require high-level aged care, there is much greater certainty about the length of time people typically spend in residential and high-dependency care.

Figure 6.2 in the Commission's draft report indicates the most common length of stay in residential aged care is 3-5 years and that very few people spend more than 8 years in such accommodation.

Home reversion is designed to mitigate longevity risk. Longevity risk is a far bigger issue in funding retirement than high-dependency aged care, since there is more uncertainty about how long a person will spend in healthy retirement and low-level aged care than there is about the length of stay in residential and high-dependency care.

As the Commission points out in Chapter 7 of its draft report, the risk of entering residential and/or high-dependency care is more easily insured, since there is wider variation of experience across the community and the costs associated with the insured event (i.e., the cost of supporting someone once they have entered residential or high-dependency care) are more predictable given the greater certainty over the likely length of stay.

This submission endorses the Commission's focus on social insurance as a means of mitigating dependency risk. Equity release is more naturally suited to mitigating longevity risk, which affects the cost of funding retirement income and low-end (home-based) aged care. Longevity risk is essentially uninsurable since most people are expected to live longer lives, rather than just some people and not others, and the costs of supporting different standards of living in retirement and low-level aged care vary widely across the community.

Nevertheless, this submission welcomes the Commission's emphasis on developing the market for home equity release because funding of retirement, low-end aged care and high-end aged care occurs across a continuum. Home reversions typically limit the maximum proportion of equity in a house than can be released. This is partly to manage the risk inherent in the product but also to ensure that the homeowner retains some value in the home when it is finally sold, either to bequeath to beneficiaries or to fund high-level aged care.

So the products are connected, even if home reversion is more naturally suited to the pre-dependency stage and social insurance to the dependency stage of the life cycle.

Home reversion offers an immediate solution to underfunded retirement and aged care

Development of a fully funded insurance scheme for high-end aged care is some way off. In the meantime, the number of older Australians is growing as Baby Boomers pass into retirement and on to aged care. A mechanism to release equity from people's homes is an immediate solution to underfunding of retirement income and aged care for the Baby Boom generation. It offers an immediate source of co-contribution to the costs of supporting older Australians during their retirement and once they enter aged care, including high-dependency aged care.

Given that (i) the family home remains the major source of accumulated wealth for older Australians, (ii) co-contribution is inevitable given pressure on public finances, and (iii) intergenerational equity suggests that wealthy Baby Boomers should contribute to the funding of their later years, the Commission's support for home equity release is to be welcomed.

Government support not government provision

The remainder of this submission reviews the particular aspects of the market for home reversion that merit further investigation as part of any review of government support for the market. The market needs support from government to develop its full potential but there is no need for the government to dominate the provision of home equity release to the exclusion of the private sector.

The submission is structured as follows:

- Section 2 reviews obstacles facing the private sector in developing a market for home reversion;
- Section 3 discusses the role for government in facilitating development of the market for home reversion; and
- Section 4 draws conclusions from the arguments presented in earlier sections.

2 Establishing the market for home reversion in Australia

The Commission's draft report identifies home equity release as a potential source of additional funding for aged care in Australia. The most recent data (ABS Cat No 6554.0) indicate the total value of owner-occupied housing (net of outstanding loan amounts) was worth about $1,872 billion in 2005-06 (of which $511 billion is held by people aged 65 and over). Since then we would expect the aggregate net value of owner-occupied housing to have increased significantly, as well as the share relating to those aged 65 and over.[1]

In fact, equity release is better suited to funding retirement income than it is for funding aged care. However, home reversions typically limit the proportion of equity that can be released before the property is sold, leaving a remainder which can be used to fund aged care. As argued in Section 1, funding of retirement and aged care are linked, and home reversion offers a means of augmenting funding for both purposes.

Older Australians who release equity in their homes through home reversion receive both immediate and accruing benefits. The product provides a means of increasing income during retirement, in turn widening the range of consumption and lifestyle choices open to retirees. Home reversion allows homeowners to exchange an illiquid asset for cash, while ensuring ongoing and unencumbered access to their home for as long as they live. They continue to accrue capital gains as their share of the equity in the home increases over time.

Funds released through home reversion enable retirees to secure their future comfort by maintaining their membership of private health insurance funds and, if necessary, physically modifying their homes to facilitate easier living as they age. The ability to remain in their homes for longer enables older Australians to enjoy familiar surroundings and continue to be part of their local communities.

People generally report a higher quality of life and enjoy better health as they age when they are surrounded by familiar places, people and things. As the Commission points out (p.208), home equity release can be used to fund residential or high-dependency aged care for one partner while the other continues to reside in the family home.

Wider access to home reversion requires the market to be established on a firmer footing. Home reversion or debt-free equity release is new to Australia and available commercially through just one outlet, Homesafe Solutions. Reverse mortgages, an alternative form of equity release, are more widely available but differ from home reversion in that (i) they involve the accumulation of debt and (ii) require the homeowner to bear all of the longevity, interest rate and property value risk.

[1] Our expectation is based on several factors, including: (i) a higher share of housing in national net wealth; (ii) Australia's ageing population; and (iii) growth in nominal GDP of 6.5% p.a. between 2005-06 and 2009-10 to which the average value of houses would be closely linked.

As the Commission points out (p.208), experience with reverse mortgages has not always endeared older Australians to the idea of releasing equity from their homes. This needs to change if home reversion is to become more widely accepted.

The Commission suggests that a government-backed equity release scheme be established to achieve this objective. In our view, the market should be given a chance to develop private alternatives, possibly alongside a low-level government scheme aimed at homeowners excluded for whatever reason from the private market. There are obstacles to the further development of the private market, however, and these need to be carefully considered.

The remainder of this section discusses reasons why the private market for home reversion might not be expected to develop without government assistance.

2.1 Obstacles to market development

Home reversion should appeal to retirees and property investors alike, and the market might be expected to grow steadily of its own accord. However, there are obstacles that threaten to impede growth of the market and potentially produce sub-optimal take-up of a welfare-enhancing financial innovation. Factors obstruct both the demand for home reversion and the supply of investment funds for home reversion trust funds. However, supply-side factors pose the greater concern.

2.1.1 Demand-side factors

For consumers, the primary obstacle is poor awareness of home reversion and, to an extent, low financial literacy. Home reversions are complex and retirees are understandably wary, especially of commitments involving the family home. The early entry of reverse mortgages as the first form of home equity release encountered by Australians has added to confusion among consumers, who naturally fail to recognise the distinguishing features of home reversion at first glance, viewing them in the same light as reverse mortgages. For example, the life tenancy implicit in the contractual structure of home reversion is poorly understood.

In addition to uncertainty surrounding ownership and residency rights under home reversion, there are also information barriers facing consumers, including product awareness and financial literacy. To some extent, information gaps can be filled through advertising and product awareness campaigns. However, government-backed education programs would also help to boost financial literacy and consumer confidence in this new product.

That said, Homesafe Solutions reports strong interest in the product following any exposure on television or in the print media. Deloitte Access Economics' experience confirms this intelligence. Following the appearance of an opinion-editorial in a major daily newspaper referring to debt-free equity release (Harper 2011), our office fielded numerous enquiries from the public seeking further information about the product and its supplier.

2.1.2 Supply-side factors

Home reversion essentially involves exchanging a claim on the future sale value of a person's home for cash in the hand. Implicitly, the provider of a home reversion product offers to liquefy part of a person's home while simultaneously agreeing to allow them to continue to own and occupy the home until they sell it or die. At that point the provider claims the agreed share of the sale proceeds under the home reversion agreement.

It is uncertain how long the provider must wait to realise its share of the value of the home. This is where longevity risk is shared with the provider. Nevertheless, the provider must fund the liquidity offered to the homeowner for as long as they choose to live in the home or remain alive to do so. The cost of the liquidity offered by the provider is built into the cash sum offered in exchange for a share in the sale proceeds of the house. This calculation also considers an actuarial assessment of the likely length of occupancy of the owner or their surviving partner.

The main obstacle to wider availability of home reversion is the willingness of investors to acquire units or shares in home reversion trust funds. Someone must be willing to provide liquidity, i.e., to wait for as long as necessary until the home is sold. Even with significant discounting of the expected future value of the home to reflect the expected waiting time, investors seem wary of committing to provide liquidity, notwithstanding the potential diversification benefits of investing in a range of owner-occupied dwellings across Australia.

Indeed, pooled investments in owner-occupied housing represent a new asset class for institutional investors. The advantages of accessing a diversified pool of bricks-and-mortar assets unable to be acquired in any other way by institutional investors ought to be an attractive investment proposition. Nonetheless, home reversion has struggled to gain acceptance among institutional investors in Australia.

One source of concern for investors is the duration of the underlying investment, which in turn reflects concerns about the size and liquidity of the market for units in home reversion trust funds. Investors want to know how easily they can liquidate their holdings of units if circumstances change and they need to sell out.

Without an active market for units in home reversion trust funds, the illiquidity of the underlying assets is transferred to the units instead, and investors shy away. In addition, as noted above, institutional investors are not accustomed to investing in residential real estate, and their innate conservatism militates against novel investment products like home reversion trust funds, notwithstanding the potential diversification benefits of such investments.

Unlike demand-side obstacles, supply-side factors cannot be easily addressed by home reversion providers. They are in the hands of investors and their appetite for risk and liquidity. Concerns over liquidity may dissipate as the size of the investor pool increases. More investment enables interests in more properties to be purchased, increasing the likelihood of more regular sales with their accompanying distributions to investors. But the size of the investor pool remains constrained by investors' risk aversion.

However, from an investor's point of view, home reversions offer an asset class in residential property without the maintenance and risk profile of a 'traditional' property investment. As an asset class, home reversions form a unitised pool of interests in residential properties. These do not generate any cash flow (rental income) until the houses are sold; however, neither are maintenance and insurance costs payable, since they remain the responsibility of the homeowner. Indeed, much of the risk attaching to 'traditional' property investment is either irrelevant in home reversions (e.g. tenancy or default risk – only to the extent of maintenance and insurance upkeep) or diversified across a 'pooled' residential property pool (e.g. duration risk, location risk).

Residential property is the dominant asset class in Australia; however, institutional investors are under-represented in this asset class. In principle, the creation of a pooled residential property investment product should be attractive to institutional investors. It provides exposure to capital gains in detached homes in a way that is:

- diversified (i.e. for the value of capital required to purchase a single property in a certain location, an investor can instead purchase an interest in the trust which is spread across numerous properties in different locations);
- scalable (i.e. without pooling residential properties, any investment in the asset class is 'lumpy' and unappealing to institutional investors); and
- indirect (i.e. investors need not actively select property and perform purchase and sale transactions themselves).

In effect, the product enables the creation of a secondary market for residential property where exposure to the property market is diversified, more liquid than other property capital gain investments and cheaper overall, since transaction costs are spread throughout the pool and investors benefit from time saved in managing their investments.

The advantages to investors of accessing one of Australia's largest asset pools through home reversion ought to be clear. Nevertheless, without critical mass, investors are reluctant to invest. There is a classic market failure on the supply side of the market for home reversion: the collectively rational action (investing in a new asset class) is privately irrational (given the inability to sell out of an illiquid market).

Breaking the cycle of illiquidity requires a 'bell-wether' investor with sufficiently deep pockets and a credible appetite for long-duration claims to convince other investors to join the pool. The government qualifies as perhaps the only such investor in the market.

3 A role for government

The primary beneficiaries of home reversion are older Australians, who gain access to a means of augmenting their retirement incomes and widening their aged care options while retaining ownership of their homes. However, government also benefits from home reversion as this additional source of funds relieves growing pressure on budget outlays for the age pension and aged care.

Furthermore, resources available to government through the tax system can be targeted towards those most in need of assistance in retirement and aged care, as others who are better placed to support themselves are able to do so through the release of equity stored in their homes.

The benefits to government of a wider take-up of home reversion include:

- easing pressure on budget outlays for the age pension, aged care, and health services for older Australians without sacrificing their standard of living;
- improving the intergenerational equity of the tax system by reducing the need to fund the needs of older Australians through higher taxes imposed on younger Australians – home reversion allows older Australians to meet more of their own needs from their own resources;
- seeding a market for innovative retirement income products, which may produce further variations on the home reversion theme as well as opening the way for investors to access a new asset class in residential real estate; and
- improving the self-management of longevity risk by encouraging people to liquefy an existing private asset (their homes) rather than pressing the government to sell annuities and accumulate assets on public account (an idea already considered and rejected by the recent Henry Review).

Yet the market for home reversion is struggling to develop for reasons highlighted in Section 2. Factors obstructing the demand for home reversion and the supply of investment funds to home reversion trust funds create a divergence between the private and social benefits and costs of home reversion. In other words, there is the potential for a product whose benefits would be shared by retirees, investors and taxpayers to be undersupplied on account of misperceptions of the product's costs.

Divergences between social and private costs and benefits form the basis of a case for government intervention to improve the social efficiency of market outcomes. The market for home reversion in Australia is in its infancy, and may take far longer to develop than need be the case because of externalities affecting both sides of the market.

Yet the extent of government intervention required to supply home reversion at a socially optimal level need not extend to public provision of equity release through a government monopoly. The government can and should facilitate development of the market for equity release rather than displacing the market with a government-backed scheme.

3.1 Government as market facilitator

The *Final Report into Australia's Future Tax System* (the Henry Review) (Treasury 2009, p.36) argues that the public sector has a role in supporting the private sector to develop retirement income products, on condition that the private sector acting alone is unable to meet the needs of the community and that risk pricing is actuarially fair. Home reversion enables older Australians to access the wealth stored in their homes and is an ideal tool for "allowing people to better manage their retirement incomes". Government support of the home reversion market seems consistent with the approach advocated by the Henry Review.

Section 2 of this submission identifies the chief obstacles to development of the market for home reversion. Demand-side obstacles revolve around information deficiencies and lack of consumer confidence. Here government can assist by providing an appropriate framework of regulation within which home reversion can develop and public confidence can build. Such a framework can also assist on the supply side of the market where investors too lack confidence in the products as well as their liquidity and riskiness.

Supply-side obstacles chiefly concern the depth of the market for units in home reversion trust funds and investors' ability to liquidate their holdings cheaply and easily. Here the role for government is more overt, and extends to government acting as lead investor and, if necessary, "buyer of last resort" for investors keen to divest their holdings of units in home reversion trust funds..

3.1.1 Demand-side intervention

A classic role for government in facilitating market development is establishing an appropriate regulatory framework. The goal would be to ensure equitable and transparent distribution of home reversion products in a safe, sound and competitive market environment. Regulation of home reversion would potentially encompass a number of policy areas including social security, taxation and prudential regulation. Consideration should be given to the form in which funds are provided to retirees (i.e. annuity or lump sum), the potential role for an 'early sale' rebate to protect homeowners who sell early, and whether prudential supervision would be required to manage the risk posed by the asset portfolio.

One concern is that retirees spend their released equity "too quickly" and fall back on public support for aged care. Asset and income tests for the age pension and supported places in aged care must be calibrated to support responsible use of equity release. This cuts both ways: neither should incentives encourage rapid drawdown of home equity nor should there be any disincentive to access home equity for genuine retirement and aged care purposes.

The Commission devotes considerable attention to the impact of means testing on potential co-contribution to aged care. Careful calibration of means tests is essential to the healthy development of the private market for home reversion. In particular, equity released from the home for genuine retirement income/aged care purposes must be treated no differently from equity retained in the home. At present this would imply exemption from both the asset and income tests, at least up to a cap.

Private home reversion schemes should also be subject to appropriate prudential supervision, securities regulation and competition regulation. Since investors in home reversion trust funds would generally be sophisticated, the level of prudential oversight would be expected to be light. Nevertheless, investor confidence requires a regime which ensures probity and appropriate degrees of transparency. Investor and consumer education could go hand-in-hand with securities regulation as they currently do under the Australian Securities and Investments Commission.

Intergenerational equity and safety net considerations

In determining the method and extent of support for the market, government needs to consider potential equity implications. Wider access to home reversion will affect distributional equity, both within and across generations. The mere fact that equity is affected should not be considered a problem but must be taken into account when determining the precise form of government assistance.

Since home reversion involves the sale of a share of the future sale proceeds of a home, providers naturally focus on locales expected to provide sustainable long-term capital growth. They also gravitate to houses in more desirable locations within those areas, and to cities rather than country towns. At present, Homesafe Solutions only offers its home reversion product in Greater Sydney and Greater Melbourne, for example.

Government support for the market should aim to extend the reach of the product to larger numbers of older Australians living in a wider variety of locations and in a broader spectrum of housing stock. This may require an extension of the existing Pension Loans Scheme (as suggested by the Commission) to provide a safety net for those homeowners whose properties, for whatever reason, are rejected by the private market for equity release.

We agree with the Commission that “the burden of funding should be equitable”, and that those unable to contribute significant funds from private sources (perhaps because they do not own a home or their property is deemed too high-risk to price) should be protected by a government safety net. The more funds are released from private sources to augment public provision of retirement incomes and aged care support, the more that public funding can be focussed on those in genuine need of government support, i.e., the more generous the ‘safety net’ level of support can be.

3.1.2 Supply-side intervention

On the supply side, the objective of government support for home reversion should be to facilitate the depth and liquidity of the market for units in home reversion trust funds. Investors should be confident that they will be able to liquidate their securities promptly and obtain a fair price. The benefit to government of attracting private investors is that some of the risks associated with the funding of aged care are redistributed to financial institutions whose businesses revolve around risk management and diversification.

Recent government initiatives to support the market for residential mortgage-backed securities (RMBS) provide an example of public support for private market development. Such support is offered for a fee but the willingness of government to invest and make a secondary market in securities adds significantly to the chances of the market growing to maturity and perhaps even beyond the need for further public assistance.

The government's willingness to act as a 'buyer of last resort' would solve the liquidity problem in the market for units in home reversion trust funds and should be considered as a priority for the development of this market. Investors could go to a 'window' operated by government to exchange their claims (for a fee) for liquid government bonds or sell them outright.

The implicit 'put option' could be priced to limit the subsidy to private investors. But the spur to market growth such a guarantee would provide would reduce the chances of the option being exercised, at least so long as normal trading conditions in the wider financial system prevailed. Fees could be calibrated so that demand for the facility would dissipate as market liquidity improved, thereby allowing an orderly exit from these arrangements.

Liquidity could also be improved by providing greater certainty and transparency about prices in the secondary market. By occasionally entering the market as both a buyer and seller of home reversion units, the government could help to provide a reliable basis for valuing these securities – in the same way that the RBA tests the foreign exchange markets to establish price and volume for the A$.

4 In conclusion

Australia's market for home reversion is in its infancy and struggles to make significant progress. Yet the potential benefits to retirees, investors and taxpayers of an active market in home reversion are clear. The Commission has correctly identified the potential of home equity release, particularly home reversion, to support the funding of aged care. Indeed, home reversion has the potential to support funding across the whole continuum of experience for older Australians, beginning with retirement and ending (in many but not all cases) in high-dependency care.

Wider availability and acceptance of home reversion need not require the establishment of a government-backed scheme, except perhaps as a safety net along the lines of the existing Pension Loans Scheme. The primary objective should be to engage government as a facilitator of the private market for home reversion rather than as sole or even a major provider.

There are good reasons why the private market for home reversion is slow to develop. However, by providing an appropriate framework of regulation, education and information, and, most importantly, by acting as 'bell-wether' investor and 'buyer of last resort', government could stimulate private supply of home reversion at modest public expense.

The reward to government for successfully seeding the private market for home reversion is substantial: a major source of funds for private co-contribution is released, relieving pressure on stretched government budgets and allowing those public funds that are available to be targeted more directly on the needy.

> This submission welcomes the Commission's focus on equity release, particularly home reversion, as a viable source of supplementary funding for aged care in Australia.
>
> Rather than recommending the establishment of a government-backed equity release scheme, however, this submission urges the Commission to recommend that government actively consider how best to remove obstacles to the development of the private market in home reversion.
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> Such obstacles are chiefly but not exclusively on the supply side of the market. The Commission should therefore recommend that government investigate how best to support private investment in home reversion trust funds, including its own potential role as 'bell-wether' investor and 'buyer of last resort'.
>
> A government-backed scheme might complement a developed private market to enable people whose homes are rejected by the private market to participate in home reversion to the greatest extent practicable.

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Limitation of our work

General use restriction

This report is prepared solely for Homesafe Solutions Pty Ltd. The report has been prepared for the purpose of a response to the Productivity Commission's Report, *Caring For Older Australians*. This report is not intended to and should not be used or relied upon by anyone other than Homesafe Solutions Pty Ltd and the Productivity Commission and we accept no duty of care to any other person or entity.

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Recruit and retain the best – our people are talented, enthusiastic, self-starters, team players who are bursting with potential. They are people with whom we have a lifetime association.

Talk straight – when we talk, it's open, regular, honest, constructive two-way communication between our people and our clients.

Empower and trust – we encourage a sense of ownership and pride by giving responsibility and delegating authority.

Continuously grow and improve – we have an environment that respects the individual, rewards achievements, welcomes change and encourages a lifetime of learning – with ourselves and our clients.

Aim to be famous – we aim to reach for the stars – and beyond. To be thought leaders, showcasing our clients and our team's talent and expertise.

Play to win-think globally – winning is our stated objective. It is also our state of mind.

Have fun and celebrate – there is never a wrong time to celebrate and have fun – recognising, appreciating, acknowledging and learning from the experiences and success shared between our client and Deloitte teams.

Our culture – our essence

Culture at Deloitte does not just happen – we work at it.

It's the sum total of the actions of our people, it's the way we treat others – it's the way we behave. Our seven Signals embody these values. Our passion for teamwork and exceptional client service is our point of difference.

At Deloitte, we live and breathe our culture.

Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

Recent awards and achievements

- Awarded the Accountancy Firm of the Year - CFO Awards 2008 for the second time in three years
- The largest, independent management consulting capability in Australia with over 630 people
- Recognised for its innovative approach to managing growth in McKinsey's international organisational study *The Granularity of Growth* as a full-chapter case study
- Tier one ranking as one of the best tax firms in Australia by the *International Tax Review* in its World Tax 2009 report
- The largest Forensic practice in the Asia Pacific region and a nationally integrated Corporate Finance business of more than 250 professionals, active in takeovers, acquisitions, divestments and initial public offerings
- A Risk Services practice nominated by industry analyst Forrester Research as the global leader in both Risk Consulting Services (Q2 2007) and Security Consulting (Q3 2007)
- Corporate Reorganisation Services ranked the number one non-investment bank financial advisers globally by The Deal for nine consecutive quarters (to Q4 2007)
- Recognised in 2008 as an Employer of Choice for Women for the seventh year in a row as well as winning the prestigious award for the Leading Organisation for the Advancement of Women by the Federal Government's Equal Opportunity for Women in the Workplace Agency (EOWA)

Contact us

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