Caring for Older Australians
Productivity Commission
PO Box 1428 Canberra City ACT 2601

This submission is made on behalf of FORTUS – a national association of Equity Release specialists – and the third party distribution channel of Reverse Mortgage products.

In the Draft Report of Caring for Older Australians (January 2011) the Commission submitted Draft Recommendation 7.1 as follows
"The Australian Government should establish a government-backed Aged Care Equity Release scheme which would enable individuals to draw down on the equity in their home to contribute to the costs of their aged care and support".

The 2010 Federal Budget indicated the Government, as guarantor for Accommodation Bonds, has a $9.1b potential liability. This figure relates to Accommodation Bonds for low-level care and extra services at high-level. It is estimated approximately $120m is currently funded by Equity Release. The current acceptance of Equity Release is minimal and based upon a lack of awareness by ingoing residents and families, together with a lack of explanation by aged care providers.

Although it is not indicated in the recommendation, it would seem appropriate that non-government funding be the source of Equity Release, and the government could be the guarantor of the No Negative Equity Guarantee (NNEG), under strict guidelines issued by regulations. This would lower the cost of funds and be similar to the US market. An alternate source, particularly for non-bank lenders, is the residential mortgage backed securities market (RMBS), which our government has recently supported through the Australian Office of Financial Management (AOFM) in recent standard home loan releases.

In terms of meeting the costs of ageing, there has been some negativity towards Equity Release, but in the absence of other short-term alternatives, the prudent use of equity seems appropriate. Previously the elderly and their families wanted to maximise the estate to its beneficiaries, but there appears to a considerable change by the "new elderly" towards the using of assets for later life needs. Unless beneficiaries are able to financially support their parents in later life, a reduced inheritance would seem necessary, or alternatively tax payers overall have to make additional contributions to the current system.

Selling the family home to cover the cost of an Accommodation Bond is normally the solution offered by aged care facilitators. Not only is there another option, but the sale of the family home often has negative psychological effects upon the ingoing resident.

It is important to note that, with the increasing use of Retirement Villages, in most circumstances these facilities are of a leasehold nature, and are not considered as suitable security for Equity Release.

There are two forms of Equity Release

1) Reverse Mortgage – generally available as a lump sum or the ability to conduct a regular drawdown. Some products are only available whilst the owner still resides in their home.
2) Home Reversion scheme – only available as a lump sum and can have Centrelink implications.

The Commission has indicated a “Cap” on aged care costs of $60,000. From the perspective of debt, a drawdown of $1,000 per month up to a limit of 5 years would still maintain a high level of equity in the family home. If a security is valued at $300,000 and has a growth of 3.5% per annum and a cost of funds of 9.5%, the net equity position after 5 years is forecast at $278,000. If a security is valued at $500,000 and has a growth of 6% (long term average is 7.5%) the net equity position after 5 years is forecast at $590,000.

Under the current rules for an Accommodation Bond, if a Bond is paid partially or fully by periodical payments, the family home can be rented and the income is exempt from the income test and the house is exempt from the assets test, for the purpose of Aged Pension assessment. We would urge this policy to continue, together with the Commission’s recommendations

For many elderly, the primary and often the only asset is the family home. Many of today’s elderly have never required the advice of a financial adviser and have often drawn down on a consultation with a Centrelink Financial Information Officer (FIS). The cost of a fully prepared plan would seem inappropriate in the vast majority of cases.

From the perspective of those Seniors who decide to sell the family home, we support the recommendation of a Pensioner Bond scheme, which allows surplus funds to be excluded from the assets test. We do however suggest the investment return to the ex-homeowner to be that of the Australian Government Bond rate and not of the lower CPI.

Of course the majority of Equity Release borrowers still live in their own home, even when some have been assessed for Residential Care. Our company has a client with a $50,000 per annum income, but requires another $50,000 per annum from Equity Release in order to have 24 hour care at home. Whilst this is an extreme example, the funding for Community Aged Care Packages (CACPs) has not keep up with inflation or demand, and more elderly want to receive special care in their home rather than an aged care facility.

On behalf of FORTUS, we thank the Commission in accepting our submission.

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