



Housing wealth in retirement strategies

Towards understanding
and new hypotheses

Janneke Toussaint

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Preface

What a joy doing a PhD, being supervised by Marja Elsinga and Peter Boelhouwer, and having the opportunity to be part of a fantastic team of researchers across Europe. The six years at the OTB research institute have flown by and what I did not want to believe at first did happen: I transformed into a devoted 'Housing System researcher'.

Part of the joy came from doing research: becoming more and more acquainted with the topic. I am fond of doing research and of enhancing my understanding of how the world 'really' works: how people think and behave, how systems function; and then being able to share my knowledge by presenting work at conferences and by writing journal articles. Doing research together with partners from different European countries, from different institutes was incredibly valuable. I feel very privileged that I was part of two big European projects in which the collaboration worked out so well.

Another part of the joy came from the topic itself. When I started my PhD I was really wondering who in the Netherlands would ever be interested in my work. Pensions in the Netherlands seemed safe and stable, retirees were relatively rich. House prices were steadily rising, although less rapidly than at the end of the nineties; no one believed they would ever fall. Trust in the government, pension arrangements, financial institutions and house price developments was high and purchasing a home was primarily about having a pleasant roof over one's head. Risks were almost absent from discussions about housing markets.

I still remember one of the first conferences I attended at which Janet Ford, professor in Sociology at that time at the University of York, was presenting work on the risks of owner-occupation, the risks of mortgage debts, and negative equity. I remember the reaction of a spokesman for the mortgage lenders who claimed that scientists should not emphasise the risks so much. Financial institutions were supposedly very experienced in calculating the risks, and scientists should not underestimate the knowledge of banks.

The landscape of course has changed dramatically since 2008. The global financial crisis started with housing: the subprime lending crisis. Millions of American low-income owner-occupiers could no longer manage to pay their monthly mortgage expenses, got into arrears, and were forced to leave their homes. House prices fell and the situation turned into a catastrophe. Banks where these households originally took out their mortgage had already wiped these mortgages from their books; they had been spread around globally to other financial institutions. It was the start of a much broader financial crisis that still today affects stock markets and housing markets. Pensions, already under pressure due to demographic changes, were given an extra shock by the crisis. Pension funds shrunk. Governments were faced with a different reality and had to reform their policies. Unemployment increased. Trust was no longer self-evident and households were forced to make an inventory of their financial resources.

In 2011, the relevance of being an owner-occupier and owning a dwelling outright in old age is high. Unlike retired tenants, retired owner-occupiers have reduced their housing expenses; and the value of their home represents a large amount of wealth which they can cash and consume if they wish to do so. The European Commission mentions facilitating mortgage markets to develop and introduce mortgages especially for elderly people as an option for national governments to ease some of the pressure on their pension systems. Also in the Netherlands, pension experts increasingly see the relevance of housing wealth for retirees and question whether not everyone in the Netherlands should become an owner-occupier. In short, while doing my PhD the topic of my research gradually became hot – and my knowledge felt increasingly worthwhile.

It is great to have a good topic for a PhD but this does not explain all the pleasure. I owe much to the people that have been around me. I wish to thank a great number of people who have been important for me over the years. To start with my supervisors: Marja, your style of supervision was very pleasant, you gave me freedom, trust and the encouragement I needed. You are an exceptionally hard worker, ‘begeistert’ when it comes to housing systems, you have inspired me. Peter, your role was less prominent, but when we needed you, you were there and contributed to the thesis. Thanks a lot for that. Peter Neuteboom, my mentor and first office-mate ever. Never again have I had such a cheerful, positive and restless person in my room: it was great to share a room with you. Anwen Jones and Deborah Quilgars, working with you was great; not only for the content but also for the good time after work and the countless email exchanges. Gudrun Tegeder, Ilse Helbrecht, Tim Geilenkeuser, Hannu Ruonavaara, Päivi Naumanen, József Hegedüs, Nora Teller, Hanna Szemso, Srna Mandič, Pedro Perista, Eva Andersson, Pascal de Decker and pater familias John Doling; you are all fantastic people to work with and it was great to elaborate with you on our cultural peculiarities during the memorable OSIS and Demhow dinners.

At the OTB research institute, I need to thank my dearest PhD buddies: Janine Meesters, Evelien van Rij, Wiebke Tegtmeijer, Gwen van Eijk, Wendy Bohte and Eva Heinen. In the Housing Systems research group, Paul de Vries – our small talk in the morning made many of my days; Kees Dol – because of you, new people in the section feel very welcome; Christian Lennartz – thanks for bringing the fun, coffee and fruit in the office; Joris Hoekstra, Gerard van Bortel, Marietta Haffner, Harry Boumeester, Harry van der Heijden, Michael Oxley, Julie Lawson, Kyungho Choe, Joyce Koopman, Gust Mariën, Cor Lamain, thanks all for creating a truly pleasant atmosphere to work in. Jeanet van den Bos – you helped me incredibly with the interviews: thanks for that. Daniëlle Groetelaers, Bastiaan van Loenen, Sylvia Jansen, and Eveline Vogels, you contributed significantly to my good memories of the OTB.

Finally, I need to mention a few people close to me who are of the utmost

importance: Hugo – I love to share with you all the ups and downs in life. Your favourite role is to make the latter even more dramatic and then I cannot do anything else but laugh about it all over again. Suzanne, you are a very precious friend and support, and together with Marcel highly valuable to me. Bar and Thijs, in my view the two of you absolutely succeed in making a party of life, and I am 'kei'-happy to be part of it every now and then. Mam, Pap and Jan Piet, our discussions are dangerous, but I love them: you are the best!

Now back to 'business': I have explained that my research topic became hot over the years, I became a devoted housing researcher, my PhD is finished, and you – the reader – can now start reading the result.

1 Housing wealth in retirement strategies

“Since welfare outcomes are determined by the way people behave in response to law, regulation, benefits and services in the context of social expectations, norms, values and other factors – policy making is strongly influenced by guesses about why people do what they do.” (Taylor-Gooby, 1999)

“Rationality is motivated and guided by systems of shared beliefs, norms and institutions.” (Weber, 1968 in Nee, 2003)

This book explores the role of owner-occupation in the context of the restructuring of welfare provision. Due to forces such as globalisation, demographic change, changes in labour markets, and other economic developments, European governments have generally been cutting their expenses as well as re-considering and reorganising their welfare systems, especially in relation to pensions (Pierson, 2002). In terms of actual policy, government responses differ substantially throughout Europe; however reductions in expenses suggest the cutback of social benefits and hence a shift in responsibility from governments to individual households. This suggests that households need to adjust their financial strategies to be able to cope with the newly developing risks (Ford *et al.*, 2001; Taylor-Gooby, 2004).

While welfare states have been subject to restructuring, European housing systems and mortgage markets have also changed in character. With respect to housing systems, there has been a general decline in public investment in the social rental sector, a shift away from governmental regulation towards the market mechanism; the decentralisation of what remains of government influence; and support being increasingly targeted at households with the lowest incomes (Boelhouwer & van der Heijden, 1992). In this climate, owner-occupation has been encouraged by governments in many member states of the European Union (EU). Notwithstanding the substantial differences in housing systems between countries, an increasing share of European households entered owner-occupation the last two decades (Doling & Ford, 2007). In 2008, 66 percent of European households owned a dwelling (European Mortgage Federation, 2009).

Developments on the mortgage markets have played an important role in the growth of the owner-occupier sector. More households have gained access to mortgage finance (Scanlon *et al.*, 2008; Scanlon & Whitehead, 2004). In the first place households have used this to finance the purchase of their dwelling. At the end of the 1990s, in various countries, house prices boomed and owner-occupiers thus became increasingly affluent. Mortgage-equity withdrawal products were further developed and owner-occupiers could borrow against their dwelling as collateral. The owner-occupied dwelling became the largest asset in the household asset-portfolio and housing wealth could be consumed (Doling & Ford, 2007).

These parallel developments in social welfare provision, pensions, housing

systems and mortgage markets raises a question “What is and what might be the role of owner-occupation in household financial strategies in the context of welfare restructuring?” It has been suggested that similar developments are taking place throughout the European Union and as a result housing wealth will become a cornerstone of European welfare states (Groves *et al.*, 2007; Kemeny, 2005). This book nuances this view and shows that there are considerable differences between countries. Substantial house price increases are at the basis of these ideas but are typically uncertain within ageing societies. Trust in mortgage markets is no longer self-evident and in addition to the state and the market other institutions can have an effect: family relationships appear highly relevant, while non-profit organisations can also provide alternatives for state welfare provision and the financial market.

This book contains six journal articles and a chapter from a report for the European Commission. In these contributions I explore the role of owner-occupation in the financial strategy of households, in a variety of countries and particularly in the Netherlands. At the end of the book, I attempt to provide a broadly based answer to the question of the future role of owner-occupation in various EU countries. The remainder of this chapter sets out the most relevant theories and my research methods before reflecting on some of the most important methodological issues that arose while undertaking the research.

1.1 ‘Housing-asset-based welfare’ – convergence theories and institutionalism

Although, owner-occupiers tend to perceive their dwellings above all as a ‘home’, a safe roof over their heads, a place where they can enjoy privacy and invite family and friends – an owner-occupied dwelling is also an investment good, a ‘housing asset’. It is this particular aspect of owner-occupation that is at the centre of the attention here. In different scientific disciplines, housing assets are regarded with great interest due to their important place in household asset portfolios and are often discussed, especially in relation to welfare restructuring and changes in pension systems. In the following chapters I elaborate extensively on theories from various disciplines which examined together contribute to a better understanding of these issues. As Smelser (2003) puts it:

The structures of societies do not come in neat disciplinary packages. Almost all concrete social events, situations and institutions are constituted in a seamless web of economic, political, social and cultural aspects. If we are to understand context, we are forced to be interdisciplinary.

Below, I briefly introduce three important theories from the fields of econom-

ics, sociology and welfare theory that are often used in the argument for ‘convergence’. This means that they are used to support the view that in EU countries in response to demographic change, developments in governments’ policies and household retirement strategies will resemble. Although these theories capture an important part of the developments, I argue that they might not be sufficient to understand the current and future role of housing wealth in household retirement strategies. I present another theoretical framework that can be applied to this topic, the ‘institutionalism approach’. Its main assumption is that existing institutions within countries differ considerably from each other and matter when it comes to future policy changes and future household strategies. Existing policies, norms and customs may cause distinguishable practices and national policies. In the literature, this is also called divergence or path dependence (Bengtsson & Ruonavaara, 2010; Hoekstra, 2010). I refer to the neo-institutionalism literature, as it offers a framework to understand path dependence and additionally addresses the relevance of existing norms and customs and bounded rationality when it comes to household retirement strategies.

1.1.1 Life cycle theory

To start, models based on life cycle theories of saving and consumption are powerful predictors of household saving and consumption behaviour, and some scholars have attempted to include housing wealth in their models (Chiuri & Jappelli, 2010; Fisher *et al.*, 2007; Levin, 1998; Turner & Yang, 2006; Venti & Wise, 2001). The basic theory assumes that forward-looking agents redistribute their income over the life-course, with savings providing financial security in hard times and retirement (Modigliani & Brumberg, 1954). In a well functioning financial market, young households borrow, as their incomes are normally below their average expected lifetime income; the middle-aged save and build up assets, as their income is normally higher than the life time average; and the elderly consume their assets because their incomes are generally low. In sum, life-cycle theories expect an inverted U-shaped pattern to apply to savings across age categories and over life-courses (Browning & Crossley 2001). However, if households are faced with income shocks during the life cycle, they will also consume savings. This basic theory suggests that households are motivated to save by ‘foresight’ in order to maintain a particular living standard over their life course.

The accumulation of housing wealth seems to fit the assumptions of a basic life cycle model, starting with the idea that households purchase a dwelling typically when they are young. In the early phases of the life cycle, they have saved for a deposit, have taken out a mortgage and must limit their expenditure in order to repay the mortgage. Over the life cycle households gradually repay the loan and accumulate housing wealth; however, towards

the end of the life cycle the basic model predicts owner-occupiers to consume their housing wealth, either in times of financial hardship or in retirement in order to maintain a particular living standard.

The extent of the consumption of housing wealth has appeared difficult to predict using life-cycle models (Turner & Yang, 2006; Levin, 1998). Owner-occupiers in fact appear to consume their housing wealth less than expected by these models. One important reason might be that households consider housing assets as illiquid; if they wish to consume their housing wealth, they need to sell the dwelling. Selling the dwelling means moving out of one's 'home' and this is considered a big constraint to using housing wealth. Nevertheless, scholars believe that this explanation will become less relevant in the future due to developments in mortgage markets (London Economics, 2005).

Mortgage lenders are increasingly providing opportunities to owner-occupiers not only to borrow to finance the purchase of a dwelling, but also to finance other consumption needs. Through additional mortgage loans owner-occupiers are able to utilise their housing wealth while continuing to live in their dwelling. In addition, special mortgage products are also being developed for the elderly.

An equity release scheme is the term primarily used in Anglo-Saxon countries to describe both the process and the products that allow owner-occupiers to secure substantial lump sums or regular income payments by realising part of the value of their homes, while being able to continue to live in them. (Reifner *et al.*, 2009)

There are different types of equity release schemes. Here I focus on 'mortgage'-equity release schemes. These products for the elderly are also called 'reverse mortgages' and they typically follow the 'logic' of the life-cycle theories, according to which during the employment phase of the life cycle, people accumulate housing wealth, while in retirement they are able to consume it. Scholars thus expect that in countries where mortgage markets provide these opportunities to cash in housing wealth, housing assets will be considered to be more liquid. As a result, in these countries consumption of housing assets would better fit the expectations of the life-cycle theory.

1.1.2 Purchase a dwelling for welfare needs

The second theory focuses specifically on the interplay between owner-occupation and state welfare provision within household financial strategies. Sociologist Jim Kemeny (1981) analysed housing systems in relation to state welfare regimes in different countries and observed a pattern: the less generous the welfare state, the higher the rate of owner-occupation. This pattern was empirically confirmed by Castles (1998). He found a negative correlation between the generosity of state welfare provision and the percentage of owner-

occupiers. Additionally, Castles showed that in countries where state welfare provision was less generous, older households in the lower income deciles were more often owner-occupiers if compared to the same households in countries with more generous state welfare provision. On the assumption that older owner-occupiers have lower housing expenses than their renting counterparts, owner-occupation could be regarded as an asset that serves welfare needs in old age. Kemeny (2005) and also Castles rely in their explanation on the life cycle theory arguing that purchasing a dwelling can typically be regarded as a way of redistributing income over the life cycle. If national social benefits or pension incomes are not generous, young households perceive the need to take private measures for their future financial wellbeing, in other words they need to build up private assets, and entering owner-occupation would be perceived as a way of attaining future financial wellbeing (Kemeny, 2005).

Unlike the life-cycle model, which expects households to consume housing wealth, either through selling or mortgage borrowing, Kemeny (1981, 2005) and Castles (1998) explain that housing wealth above all benefits households by reducing housing expenses. During their working life, households gradually repay their mortgage and when this is done they do not only accumulate wealth, but also reduce their housing expenses. The elderly are normally outright owners – having fully repaid their mortgages. Compared to tenants, owner-occupiers have a financial advantage, as the housing expenses of tenants tend to increase during a life course. Owner-occupier households are also able to consume their housing wealth if the going gets tough, either through selling or by taking out a mortgage. Kemeny describes the consumption of housing wealth as generally being a last-resort option.

Kemeny (2005) further hypothesised that throughout Europe, households currently perceive changes in social welfare provision, especially in relation to pension systems, and are facing the likelihood of taking greater responsibility for their future financial wellbeing. Consequently, they might increasingly wish to purchase a dwelling in order to reduce housing expenses over the life cycle. Kemeny suggested that changes in old-age welfare provision could perhaps be a partial explanation for the increasing rate of owner-occupation throughout Europe. Thus far there have not been any studies that have validated this relationship between household perceptions of policy changes and the decision to purchase, or the perception of owner-occupation as a part of a retirement strategy.

1.1.3 'Housing asset-based welfare'

This theory considers in what way housing wealth might play a role in welfare policies. When governments encourage households to purchase a dwelling they in fact encourage them to accumulate assets. Policies that encourage

households to save can be considered as 'asset-based welfare policies'. The latter concept was introduced and developed by Michael Sherraden, professor in the field of social development, who proposed a radical change in thinking about welfare provision that was particularly relevant to the history and values of the United States.

Sherraden argued that income-based policies do not assist the poor to alleviate their deprived situation: the poor remain poor. In fact, financial hardship and poverty have been on the rise during the last decades. Asset-based welfare policies, in contrast, would make it possible for households to accumulate assets, to become more inclined to make a long-term financial plan, and to set and achieve life goals (Sherraden, 1991).

[...] Income only maintains consumption, but assets change the way people think and interact in the world. With assets, people begin to think in the long term and pursue long-term goals. In other words, while income feeds people's stomachs, assets change their heads. (Sherraden, 1991)

According to Sherraden, asset-based welfare policies would reduce poverty and foster participation and active citizenship. Although he mainly develops ideas on subsidised saving accounts, he also mentions that in the United States the accumulation of housing wealth is already encouraged through government subsidies and tax arrangements. These arrangements could be considered asset-based welfare policies. However, at present these arrangements typically do not help the poor, but instead encourage the non-poor to accumulate wealth. Sherraden states that asset-based welfare policies only reduce poverty and provide equal opportunities for all when they are universal. Everybody should have the equal opportunity to participate, and the poor should be encouraged – which means subsidised – more than the rich (Sherraden, 1991).

Much of the literature on asset-based welfare policies and the inclusion of housing assets in these policies comes from the United Kingdom. The British government especially encourages low-income households by offering various subsidy schemes that enable them to purchase a dwelling. Owner-occupation not only implies a 'home', but also accumulation of housing wealth, government documents making explicit reference to the possibility of using housing assets in hard times (Malpass, 2008). The British government has stimulated and facilitated the development of mortgage products, believing that if the elderly are income-poor but housing-asset rich they will be able to cash in housing wealth with a mortgage to add to their pension income. In other words, the accumulation and consumption of housing wealth can take place in the manner assumed by the basic life-cycle theory.

In its most recent Green Paper on pensions, the European Commission also suggests that with help of the mortgage markets housing wealth can be con-

sumed in retirement according to the basic life-cycle theory. The Commission presents a broad range of options available to national governments to release some of the pressure on national pension systems. In this document, the Commission states that

[t]he Internal Market could also be helpful in extending access to additional sources of retirement income beyond pensions, such as reverse mortgages. (European Commission, 2010)

1.1.4 Institutionalism

It appears that many of the ideas, concepts and future scenarios about housing wealth and its part in the welfare state originate from Anglo-Saxon countries: Sherraden presented his ideas about asset-based welfare as a proposal that typically fit in the American context. The British government adopted Sherraden's ideas and included housing assets in their welfare policies. The term 'equity release scheme' stems from Anglo-Saxon countries, as was mentioned above, and yet it is now also echoed in the European Commission Green Paper on pensions. I will ask to what extent these proposals also fit the context of other EU member states, and whether it is likely that household financial strategies and welfare policies in Europe will converge with those of the British.

To start with, it appears invalid to conclude that globalisation and demographic change affect different countries and their policies in the same way (Frericks, 2010; Pierson, 2002; Starke *et al.*, 2008). Although most European countries want to cut government expenditure, the way that policies are reformulated and the basis on which the cutbacks are made differ substantially. Existing policies appear to be 'sticky', such that changes are restricted by existing policy arrangements (Bengtsson & Ruonavaara, 2010; Thelen, 1999). This is also called path dependence –

certain courses of political development once initiated, are hard to reverse. Individual and organisational adaptations to previous arrangements may also make reversal unattractive. (Pierson, 2002)

Pension systems and the consequences of changes to the system appear highly complex. If a government decides to reduce the size of the state pension, this does not necessarily imply that households need to adjust their financial strategies. For instance, in some countries personal pension saving is mandatory. If state pensions are reduced, mandatory saving in these schemes can be increased. Personal pension savings are stored in private funds, and are therefore external to the state. Nevertheless, national governments are able to regulate these private funds to a greater or lesser extent. In some

countries, state intervention in the market is regarded as desirable. Hence, a government is still able to protect households to a greater or lesser extent against market risks (Barr & Diamond, 2006; Frericks, 2010).

Furthermore, ideas about housing-asset based welfare rely on a straightforward division between state and market, such that if the state does not provide, then solutions need to come from the (housing) market. However, in many countries, other types of institutions also play a role in providing social services. For example, due to differing norms and traditions, in some countries the family plays a crucial role in providing welfare, both in kind and financially. This is known to be the case in Southern European welfare state regimes (Arts & Gelissen, 2002), although people in Germany also appear to be family-oriented, with the elderly often being cared for by relatives, mainly women, who reduce their working hours or stay at home in order to provide such care. In addition, non-profit organisations can play a role in household strategies (Pfau-Effinger, 2005).

In the United Kingdom, both pensions and housing have been policy areas in which retrenchment has been highly successful (Pierson, 1995). Between 1979 and 1990, the British government shifted pension responsibility to the private sector and individual households. At the same time, tenants were able to buy their public rental dwellings at generous discounts. Owner-occupation became the norm, while the public rental sector became increasingly residual and stigmatised. Mortgage markets were deregulated, competition between lenders was encouraged and loans became ever higher multiples of borrower income and a higher proportion of the property value (Stephens, 1993). Currently, the United Kingdom has the most developed mortgage market in Europe (London Economics, 2005), as well as the most extensive mortgage-equity release market in comparison to other European countries (Reifner et al., 2009). In sum, in the United Kingdom several developments have taken place which appear to accord with the notion of 'housing-asset-based welfare'.

Another common assumption of the theories described above is that individual households are rational human beings that have a universal response to a similar policy change. People wish to buy a dwelling, because public pensions will become less generous and therefore they need personal pension provision. Additionally, individual households wish to spend their wealth in retirement, because pension income will be lower than last earned income. If there are possibilities to cash in and consume housing wealth while remaining the occupant of the dwelling, households will use these.

Yet in fact, it has repeatedly been shown that rationality of households is bounded (Thaler, 1990; Wärneryd, 1999). When it comes to pension savings, households appear rather unsuccessful due to short time horizons (Wärneryd, 1999). Although differences exist between countries and between households, generally households can only plan for a limited years to come (Hershey et al., 2007; Rooij et al., 2005). The implication is that retirement plans are not self-evi-

dently a reason to purchase a dwelling. Also, the consumption of wealth in old age appears not to follow the assumptions of the rationality. Generally, households seem to adjust their spending in old age to their pension income, and tend not to consume their assets. Housing wealth in particular is consumed to a much lesser extent than income and savings on for instance a bank account (Levin, 1998; Thaler, 1999). Apparently, households' norms and routines diverge from the rationality assumptions and additionally they might differ between countries.

1.2 Research questions

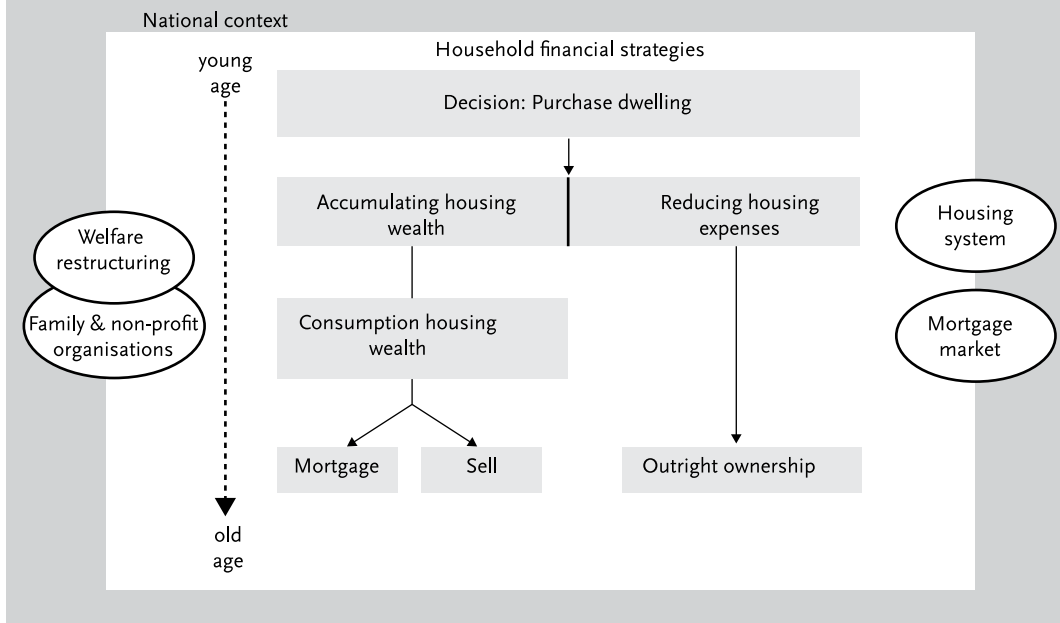
The problem is that there is only limited knowledge when it comes to understanding the role of owner-occupation in household financial plans. Do households regard the purchase of their dwelling as part of their financial strategy, how do they think about it as part of the strategy and why do they not consume housing wealth as much as expected? Additionally, large part of the literature stems from a limited number of countries, often Anglo-Saxon countries. The purpose of this study is to contribute to a better understanding of the role of owner-occupation across various EU member states in order to improve existing theory and to improve knowledge for policymakers. Finding relevant context variables and pinpointing relevant customs in household strategies will be one of the most important contributions of this thesis to the existing literature.

Two lines of argument can be distinguished in the existing literature. The first, the 'convergence approach' assumes similar developments in welfare policies across countries and households will have similar perceptions and behave similarly in response to such developments. The second, the 'institutionalism approach', expects welfare policy to be typically sticky and therefore that changes will remain bound to existing arrangements and to customs in household behaviour and perceptions. Therefore the role of housing wealth in policies and household behaviour could remain rather distinct between countries.

Based on the theory I focus on three questions to which the answers could reveal the role of housing wealth in households' financial strategies and the relevant aspects of the national context (see Figure 1.1). Figure 1.1 shows the relevant steps or plans in household financial strategies when it comes to housing wealth. It also shows the aspects of the national context that are central in this study.

First, I focus on the decision to buy a dwelling, which is typically taken in an early phase of the life cycle, at young age. To what extent are assumptions of the convergence approach plausible: Do households in all countries take into account state welfare provision, specifically public pension incomes, and hence their future financial wellbeing when deciding to become owner-occu-

Figure 1.1 Housing wealth in retirement strategies



piers? Do they foresee that they will need their own financial resources in old age and do they perceive owner-occupation as part of a more broadly focused financial strategy? Or, as suggested by the institutionalism approach, are other types of considerations apparent relating to differences in context with respect to welfare restructuring, the role of the family and non-profit organisations, housing systems, or mortgage markets? To explore reasons 'why' across EU countries, an open question is most suitable: 'Why do households decide to buy, and what are their considerations in doing so?'

Second, I focus on the way in which the owner-occupied dwelling is part of the household strategy: Do households, as the convergence approach suggests, accumulate housing wealth to build up a nest egg (savings for later) and to reduce housing expenses as they approach old age, with the goal of outright-ownership as was argued by Kemeny (2005); and Castles (1998)? Do they wish to consume their housing wealth by selling the dwelling or by taking out a mortgage, as was predicted by the life cycle model? Or, as assumed by the institutionalism approach, are there other ways in which an owner-occupied dwelling provides financial security? And what are relevant aspects of the country's context? The second research question is 'In what way do owner-occupiers include their dwelling in a financial strategy and what are their considerations?'

Third, I aim to unravel the conditions in which households would consume their housing wealth either by selling or by mortgage-equity release schemes. In other words, I search for the conditions in which the life-cycle model correctly predicts consumption of housing wealth in retirement. Does financial need generally lead to consumption of housing wealth, as the convergence approach suggests? Does the availability of mortgage-equity release products enhance the consumption of housing wealth? Or, following the reason-

Table 1.1 Research questions and hypotheses

	Convergence approach	Institutionalism approach
1. Why do households purchase a dwelling, what are their considerations?	In all countries in response to old age welfare restructuring	For a great variety of reasons, depending on the national context
2. In what way do owner-occupiers include their dwelling in a financial strategy – what strategies do they opt for?	In all countries they accumulate housing wealth to reduce housing expenses and to build a nest egg that can be cashed in and consumed in times of financial need	There is a great variety of strategies, depending on the national context
3. Under what conditions would households consume their housing wealth?	Households tend to consume their housing wealth in conditions of financial need. This is even more apparent if mortgage markets provide mortgage-equity release products	A great variety of conditions are relevant, depending on the national context

ing of the institutionalism approach, is there a greater variety of conditions relevant for households to decide whether or not they consume their housing wealth? The third research question is: ‘Under what conditions would households consume their housing wealth?’

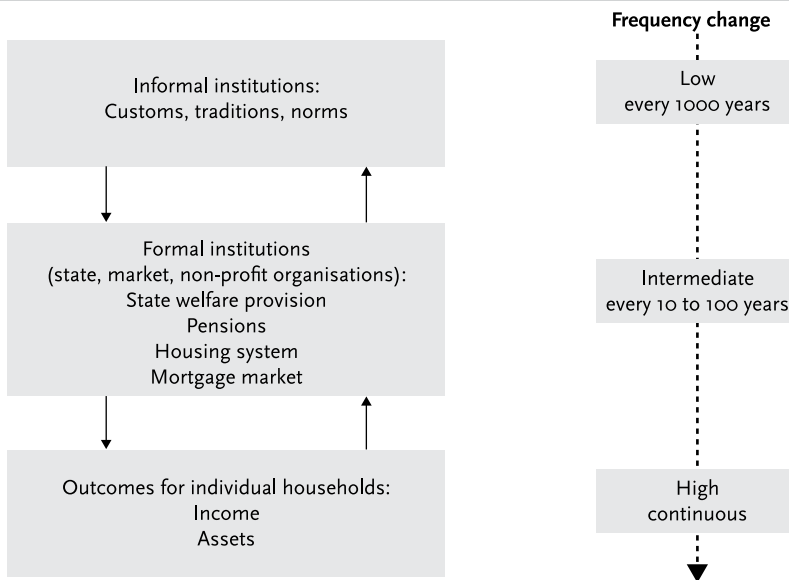
Table 1.1 summarises the expectations in line with the convergence approach and those in line with the institutional approach. In the conclusions I will return to these questions and hypotheses and reflect on the extent to which they were validated. However, below I will first set out the research approach, explain my focus on household perceptions and specify what I mean by ‘national context’.

1.3 Household perceptions and institutional contexts

In the forthcoming chapters, I wish to contribute to an understanding of the current role of owner-occupation in household financial strategies within different EU member states. On the basis of an enhanced understanding I wish to formulate some consequences for the future role of owner-occupation in the context of welfare restructuring or, in other words, to investigate the future of ‘housing asset-based welfare’ in various EU member states.

Central to my research approach are household perceptions of owner-occupation. Their relevance is three-fold. First, they provide an understanding of how households in all countries typically think of owner-occupation, to what extent they regard owner-occupation as an investment good and how owner-occupation is typically included in financial strategies. Second, they reveal to some extent how owner-occupation is currently embedded within national contexts, more specifically in formal institutional contexts. An analysis of household perceptions provides important clues about how particular aspects of policies, non-profit organisations and markets impact on household behaviour and strategies. Third, the investigation of household perceptions reveals ‘informal institutions’: the norms, customs, mores and traditions of a country (Nee *et al.*, 2005; Williamson, 2000). These are often passed on from generation to generation (North, 1994). As mentioned above, institutions – including informal institutions – are typically ‘sticky’. Radical reforms to government policy are unlikely, because politicians cannot simply set aside a coun-

Figure 1.2 Three levels of institutions based on Nee *et al.* (2005) and Williamson (2000)



try's current formal institutions, customs and norms (Pierson, 2002).

In this study I distinguish three levels (see Figure 1.2) that are loosely based on theory in the field of new institutional economic sociology (Mantzavinos *et al.*, 2004; Nee *et al.*, 2005; Williamson, 2000). The first level concerns informal institutions.

The emergence of informal institutions is a process of innovation and imitation that takes place in a social group that is learning collectively. Individuals respecting conventions, following moral rules, and adopting social norms cause (as unintended outcome of their action) the emergence of social order. (Mantzavinos *et al.*, 2004)

Informal institutions evolve very slowly. The reasons for this are that they are typically functional within a society. They have a symbolic value the importance of which is shared among members of society. They are also strongly linked to other informal and formal institutions. This research extensively explores informal institutions.

'Formal institutions' provide the rules and means of governance, and include non-profit or for-profit organisations. In this research the focus is on state welfare provision, pensions, housing systems and mortgage markets. With respect to state welfare provision the focus is mainly on old-age welfare provision. In addition, pensions not only stem from governments, but also from employers and financial institutions, so I will also focus on various pension arrangements within countries and the rules and parties involved. As the housing system includes the housing market, I will examine the characteristics of the owner-occupier and the rental sectors, as well as housing policy. Finally, I will examine the mortgage markets, which includes financial institutions and their products.

Third, formal institutions have certain outcomes in terms of income and assets for individual households. In this respect the questions to be considered are: What groups are typically at risk of poverty in a country? How high are pension incomes relative to households' last earnings? and Who acquired housing assets and to what extent did households accumulate housing wealth?

Household perceptions reveal part of the relevant knowledge; however, at the same time household perceptions and reflections on why they behave in certain ways and how they are influenced by the national context are limited (Giddens, 1984). Households have routines and people are only partly aware of why they behave in certain ways. To overcome this situation to some extent, additional knowledge about the context and links between it and perceptions is necessary. In the next section I will set out my research approach, explaining the methods by which I attempted to acquire the best possible knowledge and understanding of these issues.

1.4 Data and methodology

While undertaking my PhD I was part of two EU projects and also I conducted a telephone questionnaire survey in the Netherlands. These have provided the most important data for this thesis.

1.4.1 International comparative research projects

The first of the European projects was called 'Origins of security and insecurity: the interplay between housing, jobs, finance and household structure' (OSIS); the second was entitled 'Demographic change and housing wealth' (Demhow). I worked on these two research projects with my supervisor Marja Elsinga and we collaborated with research teams from eight other EU countries in the so-called 'qualitative' workpackages. These countries were selected because of their various welfare policies, belonging to different categories of welfare typology (Arts & Gelissen, 2002; Esping-Andersen, 1990). The United Kingdom is classified as a liberal welfare state; Germany and Belgium as conservative welfare states; and Sweden and Finland as Nordic social democratic welfare regimes. The Netherlands is usually classified somewhere in between the Nordic and conservative regime types. Portugal was also included as a Southern European welfare state, where family typically plays a crucial role in welfare provision (Arts & Gelissen, 2002). Moreover, Hungary and Slovenia, also included in this study, have experienced impressive welfare reforms over the last decades, developing first according to liberal welfare state regime type and more recently adopting some characteristics of the policies of neighbouring conservative welfare state countries (Deacon, 2000).

Box 1.1 Research teams

- Belgium – Pascal De Decker & Vicky Palmans (Ghent University)
- Finland – Hannu Ruonavaara & Paivi Naumanen (University of Turku)
- Germany – Ilse Helbrecht, Gudrun Tegeder & Tim Geilenkeuser (University of Bremen/Humboldt University, Berlin)
- Hungary – József Hegedüs, Nora Teller & Hanna Szemso (Metropolitan Research Institute, Budapest)
- Portugal – Pedro Perista & Isabel Baptista (Centro Estudos para a Intervencao Social, Lisbon)
- Slovenia – Srna Mandič (University of Ljubljana) - Involved only in Demhow-project
- Sweden – Eva Andersson (Uppsala University) - Involved only in OSIS-project
- The Netherlands – Marja Elsinga & Janneke Toussaint (Delft University of Technology)
- United Kingdom – Anwen Jones and Deborah Quilgars (University of York)

The research approaches of the two European projects were similar. In all countries research partners described the relevant formal institutional context. Together we developed a list of topics for use in household interviews. We selected an area within our countries that would be close to average in terms of the housing market, household incomes, employment and household structures. In all countries 30 households were interviewed: the maximum number of interviews that the the European Commission was prepared to finance. In the first project, 10 tenants and 20 owner-occupiers were interviewed. In the second project, 30 owner-occupiers from different age-groups were interviewed. The next step was to develop a guideline for analysis. Subsequently, in each country local researchers interpreted household interview findings and reported on these based on the guidelines for analysis. The final stage involved the comparison of all eight countries.

The country comparisons are presented in various chapters of this book. In fact, this work cannot be separated from the original country-based studies. Those of the OSIS project are published in the book *Home ownership: beyond asset and security* (Elsinga et al., 2007). The outcomes of the DEMHOW qualitative workpackage are published in a special issue of the journal *Teorija in Praksa* (5/2010).¹

The comparison of the countries undertaken here is an extension of these country-based studies. Box 1.1 presents the research teams that were of crucial importance for the analysis presented in this book.

To gain knowledge about the three levels – informal institutions, formal institutions and outcomes – I first examine informal institutions which emerge from household interviews that are conducted in eight EU member states. Specifically, within the various countries I searched for the views shared by household (household perceptions) on the role of owner-occupation in their financial strategies. On the one hand, these develop through cognitive processes that are shared by households in different countries. On the other hand, informal institutions are country specific, arising from historic developments and broader formal institutional settings.

To come to an understanding of the most relevant formal institutions in the various countries I use three sorts of information. Firstly, households speak explicitly about specific elements of the formal institutional context. Secondly, local researchers explain household thinking or perceptions by referring

¹ Articles can be found on website: <http://www.demhow.bham.ac.uk>.

to elements of the formal institutional context. Thirdly, differences and similarities between countries can sometimes be explained by formal institutional contexts. To explore potential reasons for similarities and differences, I use studies on the formal institutional context by local researchers in the countries concerned.

To gain insight into the outcomes for individual households I use statistics from various sources, for example, Eurostat, the OECD, and Hypostat. These databases usually allow comparison between countries. Often I used this information to indicate differences between countries before starting the analysis of the household interviews. For instance, one of the hypotheses was: If households cannot rely on collective pensions, they have to take private measures, and it is more likely that housing wealth would be part of a household's financial strategy. Before I start the analysis, I present an indicator from the OECD, the gross replacement rate, that is, pension income as a percentage of last earnings (see Chapter 3). This indicator allows me to position the eight countries and to reveal any extremes. Subsequently, straightforward expectations can be formulated about where housing wealth would appear to be most important in household financial strategies.

The way I approached this international comparative research is best expressed by Smelser (2003):

I believe that at this stage of our thinking, most social scientists have come to endorse the valid view that the best methodological strategy in comparative study is to gain a foothold wherever we can. This means relying on multiple kinds of data and methods – quantitative and qualitative, hard and soft, objective and intuitive – and using and weighing all of them in an effort to improve our understanding and explanations. (Smelser, 2003)

1.4.2 Methodological position

Various methods have been used to investigate the role of housing wealth in retirement strategies. So far most studies conducted quantitative research methods and most of them focussed on the behaviour of the older household: do they either or not move in old age, and do they either or not use a reverse mortgage in old age. These studies reveal outcomes (see Figure 1.2); they give statistical evidence and are reliable. An example is the study of Chiuri and Japelli (2008), which investigates ownership trajectories among individuals in the older age-groups. Other studies analysed the relationship between different sorts of indicators of formal institutions on the country level. An example is part of the study of Castles (1998) who finds the important relationship at the formal institutional level (see Figure 1.2) between the generosity of welfare states and the percentage of owner-occupation.

Studies differ in the extent to which they take context into account. Some

have a universalistic approach, they suggest that their findings on household behaviour are applicable across countries (Hantrais, 2009). Others take into account the country's context, hence pay attention to existing institutions. However, generally explanations 'why' have not been given full consideration, and have never been systematically analysed across countries.

'Why' questions can best be investigated by qualitative research methods. Importantly qualitative research methods can reveal validity of established statistical relationships and can reveal new relevant variables, either on the household or on the country level. Research that uses qualitative research methods is sometimes mistakenly thought of as being particularistic. It would focus solely on context, and does not compare countries as contexts would be too unique. This is however not my stance. I believe that I can carefully compare household strategies across countries while taking into account this important context. This type of approach is called the middle range (Hantrais, 2009).

I attempt to improve understanding by focussing first and foremost on the informal institutions (investigated by analysing household interviews); second, I attempt to integrate studies on the formal institutional context (quantitative indicators, descriptive studies and household interviews) to understand informal institutions; third, I attempt to complement qualitative research findings with figures on outcomes (quantitative measures). As the research methods are in essence qualitative, the aim is to extend theory with new hypotheses, to give answers to the questions 'why':

Comparative case studies, where a single unit is analysed in more than one setting, narrow the focus and enable intensive in-depth study. On its own, a case study can provide neither the basis for valid generalization nor the grounds for disproving an established generalization. Case studies can, however, contribute to the formulation of general propositions and to theory building. (Hantrais, 2009, p. 58)

1.4.3 Interpreting the research findings

While developing a list of topics together with the research partners from other countries I discovered how essentially different our perspectives can be. As a Dutch researcher I am strongly influenced by the customs, norms and situation in the Netherlands. In this work I attempt to interpret findings from the other countries, but my starting point is my understanding of the Netherlands. Viewpoints such as 'renting can be an acceptable alternative form of housing tenure', 'house prices rise', and 'welfare provision provides security' are not shared by all EU member states. While comparing countries I have taken this 'biased perspective' into account as much as possible. Feedback from the research partners has been of utmost importance. In the first place, I collaborated with my supervisor and the British team: Deborah Quilgars and Anwen Jones, while researchers from all of the countries involved provided

feedback on my interpretations.

In this research, as it is in most international comparative research, English was the common language. It is important to be aware that language shapes the way we see the world and our social realities (Deutscher, 2010; Helbrecht & Geilenkeuser, 2010). Often concepts from one language simply cannot be translated into another. Local researchers have described the outcomes of the household interviews in English, adjusting the wording to the English language, to typical English concepts. One could argue, that the better the English language sentences read, the further the statements are from the reality in non-English-speaking countries.

For example, the term 'home ownership' is used broadly in scientific articles, but it can be asked whether there is an equivalent term to 'home ownership' in non-Anglo-Saxon countries. In Chapter 2, together with the German team I compare household perceptions in Germany and the Netherlands. We use the term 'home ownership', but in fact no equivalent of this concept exists in either German or Dutch. A 'home' is different to a 'house' or 'dwelling' (Meesters, 2009). For Easthope (2004),

[h]omes can be understood as 'places' that hold considerable social, psychological and emotive meaning for individuals and groups.

In contrast to the term 'home ownership' or 'being a home owner', 'renting' or 'being a tenant' does not incorporate the notion of 'home'. The word 'home ownership' therefore seems to indicate that this is the more desirable option of the two types of housing tenure. Moreover, using this term repeatedly in scientific literature and particularly when describing research findings from countries such as Germany and the Netherlands, would seem to imply that 'home ownership' exists in these countries, but in fact this is not true. In Germany and the Netherlands, the equivalent concepts are *Wohneigentum* and *Eigenwoningbezit* respectively (see also Helbrecht & Geilenkeuser, 2010). These concepts refer more neutrally to ownership of a 'dwelling' or 'house'. In other words, 'dwelling' and 'house' refer more neutrally to a physical structure. During the period I worked on my PhD I decided to change my wording and use the concepts 'owner-occupation' and 'owner-occupiers'. These words are more neutral and therefore more in line with *Wohneigentum* and *Eigenwoningbezit*.

1.4.4 Telephone survey in the Netherlands

Based on knowledge gained from my involvement in the first European comparative research project, I further investigated the informal institutions within the Netherlands by developing and conducting a telephone survey and analysing the results. This questionnaire survey was intended to quantitatively verify the qualitative research findings that were based on perceptions dis-

Table 1.2 Sample of tenants and owner-occupiers in four different age groups

	Age groups				Total
	20-34 years	35-49 years	50-49 years	65 and older	
Owner-occupiers	95	162	145	80	482
Tenants	104	85	94	130	413
Total	199	247	239	210	895

cussed in the interviews. For example, based on the interviews, younger people seem more insecure about future pensions than older people; however, the small and non-random nature of the sample needed to be taken into account, and any conclusions drawn concerning the differences between age-groups needed to be treated with caution. Results from the telephone questionnaire were based on larger numbers of respondents in the various age groups and thus allowed the testing of significance of differences between age groups. Additionally, we were able to make a model to explore whether pension expectations predict a desire to enter owner-occupation as well as the role owner-occupation plays in household financial strategies for old age. An important aim was to discover differences between age groups and between owner-occupiers and tenants and for this reason a sample of tenants and owner-occupiers in four different age groups was used (see Table 1.2).

Another reason for the telephone survey was to investigate the extent to which the Dutch have been building up housing wealth, using mortgage-equity release products and their wish or intention to use these in the future. The international comparative research revealed that the Dutch have relatively substantial mortgages. In the early phases in the life cycle, young households borrow more than the value of their dwelling, while in old age the Dutch still have mortgage debts. The booming house prices of the end of the 1990s played an important role in this. In order to reveal more about Dutch 'practices' concerning the accumulation of housing wealth, I introduce the concept of the Equity-to-Value ratio (ETV). This is the complement of the Loan-to-Value, which is commonly used to indicate the size of mortgage debts relative to the value of the dwelling. ETV, in contrast, indicates the amount of housing wealth that has been built up to date. This concept also allows us to determine the extent of wealth arising from price increases and the proportion that comes from repaying the mortgage. Hence, in addition to informal institutions, I also explore outcomes for the current institutions.

1.5 Structure of the book

In the first part of this book, I explore similarities and differences between the perceived role of owner-occupation in various European countries and attempt to explain these by the variation in institutional contexts. The second part of the book investigates the role of owner-occupation and its specificities in the Netherlands using both qualitative and quantitative research methods. I briefly describe the content of the various chapters.

Chapter 2 explores the issue in the broadest way, and provides an international perspective comparing Germany and the Netherlands. It adopts a wid-

Table 1.3 Structure of the book

Data	Respondents	Chapter	Part I
OSIS 2005	In each of the 8 countries:	2, 3, 4	Comparative analysis
•Studies of formal institutional context •Household interview studies	20 owner-occupiers and 10 tenants		
Demhow 2009	In each of the 8 countries:	5	Part II The Netherlands
•Studies of formal institutional context •Household interview studies	30 owner-occupiers: 25-35 years old: 10 45-55 years old: 10 65 and older: 10	6	
Telephone survey 2008	In the Netherlands: 895 tenants and owner-occupiers 20-34 years old 35-49 years old 50-64 years old 65 and older	7, 8	

er perspective on social security, labour markets, housing markets, housing policy and mortgage markets before exploring differences in households' perceptions of security and insecurity. This chapter is based on the OSIS-project (see Section 1.4.1) and investigates the first and second research question (see Table 1.1).

Chapter 3, 4 and 5, while maintaining an international comparative research approach, zoom in on the role owner-occupation as a source of security. Chapter 3 sets out the issue of housing asset-based welfare. It extensively describes the relevant theories. Further, based on the empirical data from the OSIS-project, it distinguishes four ways in which owner-occupation plays a role as a source of security. The focus in Chapter 3 is on research question two.

Chapter 4, examines the application of the basic life cycle theory on housing wealth. It discusses various saving motives that play a role in saving and consumption behaviour. Next, it searches for perceptions on the accumulation and consumption of housing wealth in Germany, Hungary and the United Kingdom and gives special attention to additional mortgage borrowing in times of financial hardship. All three research questions are given consideration.

Chapter 5, is originally part of the comparative report for the Demhow project. The data presented is even more relevant to the study of the role of owner-occupation in old age than the data from the OSIS-project, as questions were more tailored to the issue of housing wealth and retirement strategies. In this chapter I complement the comparison of the interview studies with statistics from other sources. Chapter 5, concerns the second and third research question.

Chapters 6, 7, and 8 focus on the Netherlands and the impact of changes in collective old-age welfare provision, in particular the relationship between changes to the pension system and the role of owner-occupation in household financial strategies. Qualitative research methods are used in Chapter 6. It aims to unravel the roots of household strategies in the Netherlands: How do households perceive future pension incomes and care in old age and do they have financial plans for the future? Of course housing wealth is at the centre of the attention. This chapter addresses research questions two and three.

In Chapter 7, I use the outcomes of the telephone survey to examine the potential relationship between pension system and housing system quantitatively. Theory from Kemeny (2005) and Castles (1998) are at the basis of this paper. Households perceptions on pensions and housing wealth are measured and research questions one and two are considered.

In Chapter 8, I zoom in on the limited accumulation of housing wealth in the Netherlands, I use once again the survey data. I also measure to what extent the Dutch used mortgage-equity release products and to what extent they consider using them in retirement. Research question two and three are addressed in Chapter 8.

In Chapter 9, I answer the research questions, put the answers into a broader context and build theory by formulating new hypotheses. Finally, I reflect on the findings and present suggestions for further research.

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Part I

Comparative analysis

2 Security and insecurity of home ownership

Germany and the Netherlands¹

Janneke Toussaint, Gudrun Tegeder, Marja Elsinga, & Ilse Helbrecht, European Journal of Housing Policy, 7 (2), pp. 173-192, June 2007, Taylor & Francis (www.tandf.co.uk).

Abstract

This paper examines the experience of households in two adjacent countries, Germany and the Netherlands, both of which have relatively modest levels of home ownership but significantly different housing systems. Population is shrinking in Germany, while it is still increasing in the Netherlands. German house prices are stable while Dutch prices have been rising considerably for 25 years now. The central question is whether people in these two different contexts, which are both faced with globalization and social security reforms, have similar perceptions of the securities and insecurities of home ownership. The paper is based on institutional studies and 20 interviews among homeowners and ten interviews among tenants in both countries. The central issues here are the perceptions of (in)security and equity. The paper concludes that in both countries home ownership is perceived as a nest egg and a 'pension in stone'. However, it is also associated with insecurity. In Germany many households saw house prices as a source of insecurity. This can be explained by strong fluctuations in house prices in Germany and the fear that the declining population might adversely affect the situation and hence the 'pension in stone'. In the Netherlands a policy change – particularly a change in tax relief for mortgage-holders – was the main worry.

Keywords

Home ownership, (in)security, housing equity, household perceptions

2.1 Introduction

Housing occupies a unique place in people's lives. As the reference point of daily life, it is the prime reflection of individual desires, hopes, needs and status. It protects privacy and self-determination, yet it is strongly affected by political, economic and social developments. Housing issues are located at the intersection of citizen preferences and government targets. However, both citizen preferences and government targets are in turn touched and moulded by a fundamental development currently taking place. Globalization is im-

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pacting on the nation state and its inhabitants in numerous ways. National competitiveness needs to be maintained and enhanced, obligations of the European monetary union must be fulfilled, and international challenges posed by closer economic integration must be met.

Germany and the Netherlands both need to address these challenges. They are attempting to do so by, among other things, reducing public spending and transferring responsibilities from the public to the private sector and hence to the individual. Until now, the social benefits in each country have been relatively generous compared with their European neighbours (Eurostat, 2005); yet the citizens in both countries are facing a growing personal responsibility for funding eventualities of healthcare, unemployment, aging, etc. This is where home ownership might offer a clear advantage and a sense of security: homeowners can extract equity from their home to finance consumption when times get hard. However, home ownership can also be a source of higher risk and insecurity: the high financial commitment might turn up the pressure if the labour market becomes unstable (Behring & Helbrecht, 2002; Doling & Ford, 2003; Boelhouwer *et al.*, 2005). As the home ownership rate grows in most European countries (Doling & Elsinga, 2006), the securities and insecurities associated with home ownership become more important to households and society as a whole (Smith, 2006).

The Netherlands and Germany are neighbouring countries which are both facing changes in the welfare system and have – by European standards at least – a low home ownership rate. However, their histories, markets, traditions and policies exhibit clear differences. What roles do these differences play in how households perceive the (in)securities of home ownership? What financial strategies do households develop in the context of home ownership? How do Dutch and German households use home ownership as a vehicle for creating (personal, economic) security in their lives? These questions bring us to the central question in this paper: do the German and Dutch interviewees have different perceptions of the (in)securities of home ownership?

2.2 Research questions and method

To answer this central question, we shall take a closer look at three related questions:

1. What trends in the labour, housing and mortgage markets and the social security and housing policy are likely to have the deepest impact on people's financial security and how do they differ between Germany and the Netherlands?
 2. How does home ownership relate to perceptions of financial (in)security? Where do German and Dutch interviewees perceive differences and how can these be explained?
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3. How do households perceive (in)securities of home ownership? How do the German and Dutch interviewees differ in their perceptions and how can these be explained?

This paper is based on a comparative EU project on 'Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance and social security' (OSIS). The project included eight countries (Belgium, Germany, Great Britain, Hungary, Finland, the Netherlands, Portugal and Sweden). The results discussed here come from the studies on Germany and the Netherlands.

The qualitative interviews were carried out in all eight countries. A semi-structured topic guide was used. Key terms such as 'risk' and 'security' were embedded in the guide. Most questions were open in style with a number of follow-on questions; however on a few occasions quite explicit 'prompts' were also included for key questions.

Each country was asked to select one local housing/labour market, which had experienced average economic growth in the recent past. The aim was to avoid very depressed and unusually buoyant areas. In Germany the interviews were held in Hanover (and partly in Bremen), while in the Netherlands they were held in Haarlem. In each area, 20 homeowners and ten tenants were selected. The interviews were held in the spring and summer of 2005.

It should be mentioned that the analysis is based on 60 interviews in particular areas in Germany and the Netherlands and that the sample is not representative. We did not focus on quantities (how many) but on quality (why and how). We wanted to know why the interviewees perceived matters as they did, acted as they did, what the reasoning was behind their behaviour and decisions, and how these related to the context. To be able to perform a meaningful comparative analysis, similar selection quotas were set in each country that reflected the substantive area of interest: homeowners and tenants, marginal and non-marginal, age, household structure (Quilgars *et al.*, 2005).

In the next part of the paper we shall expatiate on the institutional contexts in the two countries. We shall focus on demographic trends, developments in the labour and housing markets, social security changes, policy shifts, and similarities and differences in mortgage markets. We shall then present the findings from the interviews. Finally, we shall draw some conclusions about the differences in the responses of the German and the Dutch interviewees and compare them with institutional differences and suggest probable relationships.

2.3 Contemporary social and economic changes in the Netherlands and Germany

The Dutch and German population are facing growing uncertainty about their future household income. This is due not only to changes in the national labour markets but also to demographic trends and national policy reforms on the welfare state. The future economic situation of households and its predictability – usually seen as an important precondition for home ownership – have become uncertain and confusing. Despite some similar trends in Germany and the Netherlands, institutional differences are leading to different consequences on the housing market.

2.3.1 Demographic trends

The housing market is heavily influenced by demographic as well as household trends. The German population, which had grown slightly since reunification, peaked at 82.5 million in 2003 (Eurostat, 2005). Since then, the population has been gradually decreasing, with a clear decline expected sometime after 2013. The population of the Netherlands, on the other hand, has continued to grow and stood at 16.3 million in 2005 (Eurostat, 2005). Despite the differences, experts expect substantial growth in the number of households in both countries (BBR, 2004, p. 5; Boelhouwer & Neuteboom, 2003, p. 125) largely as a result of higher rates of household dissolution and a steady rise in single households. This trend will push up the demand for housing in the medium term but not in the long term. The past years have already been dominated by an increasing demand for housing, which has necessitated adaptations in the housing markets in terms of quality as well as quantity. However, in Germany, in particular, there are huge differences in the demand for housing across the regions, especially between the former socialist German Democratic Republic and parts of former West Germany. While the population in the West grew by 0.5 percent annually between 1991 and 2000, it was shrinking in the East at exactly the same rate (BBR, 2004).

The general decline in the population will be accompanied by an increase in aging (Dickmann, 2004; OECD, 2005a, 2005b); both developments are a direct result of the continued decline in the birth rates across Europe (Eurostat, 2005). As the pension and welfare system and the spatial layout and infrastructures have been traditionally planned on the basis of population growth, this development has profound implications for the near future and means that welfare and infrastructure will have to be adapted to the changed social conditions.

2.3.2 Labour market

The labour market in both countries is primarily influenced by increasing flexibility and a slowdown in economic growth. Since 2001, the economic situation in the Netherlands has deteriorated: unemployment has been rising and economic growth has lagged behind the rest of Europe. Still, the unemployment rate, at 4.7 percent, is far below the German rate of 9.5 percent (Eurostat, 2005). In contrast with Germany, where no short-term recovery is expected, the Netherlands anticipates the unemployment rate to fall in 2006 (Elsinga&Toussaint, 2005a). As sweeping reforms come into effect, which will hit not only the labour market but also social benefits and healthcare, it is expected that the Netherlands will improve its labour market performance. Overall, the economic forecasts are optimistic (OECD, 2005a).

In contrast, the German labour market performance is considered precarious (OECD, 2005b). The unemployment rate remains high. To counter this, the government passed several major reforms, which are now being phased in. One of the most important reforms is the merger between unemployment and social assistance. This came into force at the end of 2004 and aims to reduce the long-term unemployment benefits and improve re-integration into the labour market. Due to these state-led restructuring programmes, the perceived uncertainty among the German population – and especially among the unemployed – is rather high at present. Numerous projects, such as changes to the dismissal protection laws, currently being debated by the new government, which took office in September 2005, are adding to these feelings of uncertainty.

Despite the differences in the political approach in the two countries, fundamental changes are moulding the labour market at present:

- Flexible employment conditions are gaining in importance: the percentage of temporary employees is rising all the time; for example, Germany saw an increase of 25 percent between 1993 and 2004. Younger people are more often affected by flexible labour conditions (Statistisches Bundesamt, 2004, p. 42).
- Employees are less confident about job stability (Elsinga & Toussaint, 2005a). In Germany, short-term dismissal due to downsizing, a move of production to foreign countries, and a reduction in income have become potential threats to job stability.
- Young people are most at risk on the labour market; unemployment in this group is well above average (see Table 2.1).

Thus, the main processes on the labour market indicate a growing flexibility on the one hand and a more insecure position, especially for younger people, on the other. Early access to home ownership has therefore become rather difficult as it requires a long period of regular income.

Table 2.1 Unemployment rate in Germany and the Netherlands according to age (in %)

	1994	1996	1998	2000	2002	2004	2005
Overall German rate	8.3	8.5	8.8	7.2	8.2	9.5	9.5
German rate of persons < 25 years	15.6	15.6	15	10.6	14.2	15.1	15
Overall Dutch rate	6.8	6	3.8	2.8	2.8	4.6	4.7
Dutch rate of persons < 25 years	10.9	11.1	7.6	5.7	5	8	8.3

Source: EUROSTAT

2.4 Social security systems

Although the details differ, there are strong similarities between the development, standard and mode of the social security system in the Netherlands and Germany. The welfare system in both countries used to be highly regulated until now. They were seen as effective and financially self-supporting systems of social insurance. Since World War II, the social security systems had been gradually extended in both countries. Stable health and care services, unemployment benefits and pensions made for a tight-knit system of social protection.

As a result of the demographic shift, national challenges (e.g. the reunification of Germany in 1991) and rising unemployment in the 1990s, the cost of the dense welfare system had slowly begun to outweigh the diminishing public funds. Both the Dutch and German government started to cut back gradually on social security expenditure – a process which is still continuing at a notable pace. Pensions, unemployment benefits, care and healthcare systems are all affected. As the pension scheme in both countries is based on a pay-as-you-go system, (which means that current earners pay for those who are retired), its financial capability is under extreme pressure. However, due to a multi-tiered pension scheme (Haverland, 2001, p. 311) which was introduced in the Netherlands in 1980, the Dutch are facing fewer challenges than the Germans.

The policy of the Dutch and German government is clearly heading towards more individual responsibility: so far, people in need have been financially supported by the state and therefore covered by a basic level of insurance. Recently, the regulations for claiming benefit have become stricter and co-payments have increased. For the individual, it is becoming more important not to rely on state support alone, but to establish a mix of public and private social insurance.

2.5 Housing market and housing policy

The percentage of home ownership on both the German and Dutch housing markets is relatively small by EU standards (see Table 2.2). In fact, in Germany it is the lowest in the EU; staying almost constant at around 40 percent since 1945. In the Netherlands, on the other hand, home ownership has increased considerably in recent decades, with owner-occupied dwellings rising from 28 percent of the housing stock in 1947 to 54 percent in 2004.

Table 2.2 Tenure structure (% of total housing stock) in Germany and the Netherlands

	Owner-occupied		Development of the home ownership rate	Private rental (2005)	Social rental (2005)
	1950	2005			
Germany	39	42	Stable	53	5
Netherlands	29	54	Growth	11	35

Source: Combined report OSIS

2.5.1 The alternative to home ownership: the rented sector

After World War II, the shortage of housing was resolved in both countries by government incentives to stimulate production in the rented sector. In Germany the emphasis was on fiscal subsidies to stimulate private building activities. This led mainly to the construction of private rented dwellings. Currently, around 53 percent of the total housing stock is in the private rented sector. Housing co-operatives (which also became private landlords during deregulation) and commercial and public investors make up the remaining 5 percent (Helbrecht & Tegeder, 2005a). The Dutch government tackled the shortage by stimulating mass construction projects by housing associations and local housing authorities, which, in turn, resulted in a large social rented sector. The social rented dwellings are provided by housing associations – since deregulation, private organizations with special legal status conferred by the Housing Act. The private rented sector is concentrated in the larger cities and consists of small private landlords and institutional investors such as pension funds and insurance companies (Elsinga & Toussaint, 2005a).

Both countries stand out in the EU, with governments that provide housing allowances, rent regulation and tenant protection in both the private and the social rented sector (Elsinga *et al.*, 2006). The German government passed a Tenant's Protection Act in 1971, which was intended to protect tenants against eviction. In addition, an index of the average rent level was introduced (*Mietpreisspiegel*), which is constantly modified and is still in use today (Helbrecht & Tegeder, 2005a). In the Netherlands, rented dwellings with monthly rents of up to 605 euros are subject to rent regulation. Only 5 percent of the rental stock is exempt. Recently, this policy has been a topic of political debate. The Minister of Housing introduced a new rent policy in 2006, which aimed to increase the non-regulated part of the market to 25 percent and to ease the regulation still further in the regulated part of the market (Elsinga & Toussaint, 2005a). The new Dutch government now decided not to implement this new rent policy; yet, it was an important issue at the time of the interviews and may have increased tenant insecurity and influenced the home owner's individual perception of security.

2.5.2 Home ownership: house prices and policy

In the early 1980s, the Dutch experienced a house price bust; thereafter, until the 1990s, house prices increased steadily until they seemed to explode towards the end of the century. In Germany, house prices increased more moderately. The dynamics of the housing market in Germany differ fundamentally according to the region. High price regions are the selective agglomer-

Table 2.3 House price developments in Germany and the Netherlands: volatility in the long term and in recent years (real terms according to country)

	Average change 1970-2003	Average change 2000-2003
Germany	3.1	-1.1
Netherlands	2.8	3.2

Source: Horsewood and Neuteboom (2006)

ation areas in the south, followed by other agglomeration areas in the north. Low-price areas are located mainly in the eastern parts of the country. Table 2.3 shows that, in real terms, house-price developments in Germany and the Netherlands were rather different in 2000-2003: prices decreased by 1.1 percent in Germany compared with an increase of 3.2 percent in the Netherlands. In 2002, the share of vacant average dwellings in Germany was 8.2 percent, compared with 2.2 percent in the Netherlands (Housing Statistics, 2004).

The government in both countries has promoted home ownership from the 1950s onwards (Kloth, 2005, p. 189; Behring & Helbrecht, 2002, p. 117 ff; Elsinga, 1995, p. 65). Although there was strong support in the Netherlands for retaining a large social rented sector, the aim to increase home ownership became more important over the decades. Fiscal policy and a mortgage guarantee system are the main factors that impact on the housing market and tenure choice. The tax authority sees an owner-occupied dwelling as an investment, which implies that interest is deductible and imputed rent is taxed (see Haffner, 2002). In general, this means that the Dutch get a considerable share of their monthly interest payments back. Tax relief is seen as the main financial incentive to increase home ownership. Fiscal policy and, particularly, the calculation of imputed rent have changed many times, but have never been abolished; however, the fiscal treatment of owner-occupied dwellings is still in the political arena.

Further, the mortgage guarantee, which was launched in 1956, still plays a major role in making home ownership accessible to low-income groups. This guarantee was privatized in 1995 and is now managed by the Home Ownership Fund. It enables people who fit the criteria to obtain a mortgage for all the costs of acquiring a dwelling, and therefore widens access to home ownership. Moreover, the lenders benefit through the 'zero solvency' which accompanies the guarantee and enables them to charge a lower interest rate of 0.2-0.5 percent (Elsinga & Dol, 2003; Elsinga & Toussaint, 2005a).

In Germany, with a traditionally strong rented sector, the national financial institutions and the fiscal system contribute directly to the low home ownership rates (Helbrecht & Smauß, 2003, p. 28). State subsidies have been cut in the past few years, but there are still diverse small promotional programmes to encourage private households to become home owners, most of them left over from the post-war housing shortage. Until 2005, the highest promotional programme was the *Eigenheimzulage*: a government grant, allocated directly to first-time buyers. Throughout an eight-year period the German government paid homeowners 1 percent of the construction costs of the property plus 800 euros for each child every year. The *Eigenheimzulage* might go some way to explaining why most Germans tend to buy a dwelling only once, as it was a once-in-a-lifetime provision. The new German government abolished

Table 2.4 Housing market and housing policy in Germany and the Netherlands

		Germany	Netherlands
Type		Large private rented sector	Large social rented sector
Rented sector	Position of tenants	Well protected, housing allowance, rent regulation and tenant protection	Well protected, housing allowance. However, tenant protection changes through rent regulation policy
Home ownership sector	House price developments	Stable, decreasing moderately; large differences between regions	Crash early eighties; price explosion late nineties
	Main government instruments	Grant for first-time buyers (<i>Eigenheimzulage</i>)*; subsidised savings	Fiscal treatment: tax relief; mortgage guarantee
	Perception owner-occupied dwelling	Once in a life-time: best quality and quantity, high expectations	Housing career, steps on housing ladder

* Abolished in 2005.

the *Eigenheimzulage* in autumn 2005 and is now subsidizing contract saving for home ownership (*Bausparkassen*). Moreover, current and future home owners, depending on their income, can benefit from diverse government bonuses (*Wohnungsbauprämie* and *Arbeitnehmersparzulage*) (Helbrecht & Tegeder, 2005a). These measures are still being heavily discussed.

For an overview of the housing market and housing policy in both countries, see Table 2.4.

2.6 Mortgage market

With home ownership rates rising, the Dutch mortgage market has boomed in the past decade with outstanding mortgages rising over fivefold between 1991-2004. In Germany, mortgage finance has grown, especially in the 1990s, although the increases have been modest since then. The growth in the Netherlands can be attributed to the rising house prices, more generous mortgage terms and the strong demand for higher quality housing. In addition, a substantial amount has been lent to finance second homes, to refinance existing fixed-interest loans at lower mortgage rates, and to withdraw equity (Ball, 2005).

In Germany, commercial banks, savings banks, mortgage banks and institutions (*Bausparkassen*) are co-operating intensively on contract-saving. Whereas the mortgage loans are used mainly for building private rented apartments, the *Bausparkassen* are closely involved in financing self-occupied home ownership. Every month, people save money until it mounts up to a sum stipulated in a contract. Once the target has been reached, the *Bausparkasse* is committed to offer a below-market rate, fixed-interest mortgage. Participation in the *Bausparkasse* system is very common in Germany; around 70 percent of homeowners had a contract (Helbrecht & Tegeder, 2005a).

On balance, the maximum borrowing capacity of an average Dutch household has risen sharply. When accepting mortgage credit, mortgage banks evaluate the repayment capacity and integrity of their clients, together with the collateral and security for the interest and repayment obligations. They are willing to apply Loan-to-Value (LTV) ratios of over 100 percent. In addition,

Table 2.5 Lending practices in Germany and the Netherlands

	Main lenders	Average LTV* (new mortgage loans) in %	Type of mortgages	% of owners with a mortgage	% of arrears among home- owning households
Germany	<i>Bausparkassen</i> Commercial banks Mortgage banks Savings banks	70	Repayment and endowment	47	2.6
Netherlands	Commercial banks Insurance companies	112	Savings and interest-only mortgages	88	0.8

*LTV = Loan-to-Value ratio.

Sources: Combined report OSIS; MacLennan *et al.* (1998)

the fiscal benefits of home ownership enhance the appeal of a high mortgage. Mortgage lenders take these benefits into account. Accordingly, Dutch lending practices are radically different from German lending practices (see Table 2.5). German mortgage-providers grant credit only if the applicants can provide at least 20-30 percent of the amount with their own capital. Home ownership in Germany is therefore much more difficult for younger households, whose financial situation is usually less settled. As a consequence, the average age of first-time buyers in Germany is higher than in the Netherlands (Mulder & Wagner, 1998).

2.7 Perceptions of financial (in)security and home ownership

It emerged from the interviews that feelings of financial security and insecurity were primarily related to the level of income. The home owner's first financial concern was inability to afford the monthly mortgage payments. Besides being able to pay the mortgage every month, a higher income means more scope to save money for emergencies. In both countries the majority of the interviewees said that they felt reasonably secure about their income level. However, this needs to be placed in perspective. Thinking about risks is an unpleasant activity, so perhaps those who seem to be most at risk try to ignore the prospect as part of a survival strategy. However, lowincome households did point out that they found it difficult to save money and would rather spend it on other things than insurance. Further, people who had experienced financial hardship through unemployment or a fall in house prices, either personally or in their immediate environment, appeared to be more aware of risks. Besides differences between groups of people, we found differences in the way in which German and Dutch interviewees perceived security and insecurity (see Table 2.6).

We shall devote the rest of this section to describing these differences and illustrate them with some quotes from the interviewees. The differences reflect to a great extent the differences in the institutional context in the two countries.

Table 2.6 Differences in perceptions of home ownership, income security and immobility in Germany and the Netherlands

Subject	German interviewees	Dutch interviewees
Becoming a homeowner	Later 'Buy once in a lifetime' Young people need flexibility and not an owner-occupied dwelling Incomes are insecure, high value attached to income security and job stability	Sooner Social rented sector inaccessible Private rented sector too expensive Confident about income security
Income security	Insecure Insecure about social security system Insecure about employment	Secure Trust in social security system, and benefits of employers Trust in employment
Immobility	Home ownership means immobility, inflexibility Fear selling difficulties	Steps in housing career

2.7.1 Becoming a home owner and saving for a deposit

Both the German and Dutch interviewees explained that they bought a dwelling when they believed that their job and their relationship were stable. A stable job and relationship were clearly prerequisites for purchasing a home. However, this notion seemed to have evolved differently in each country.

The interviewees were asked to respond to a case with the following information: A young man and woman, both still living with their parents, want to form a household and ask your advice on whether to buy or rent a house. The woman has a secure job in a government/municipal office but the man is in less secure employment and has had a string of temporary jobs, although some have lasted as long as a year. What would you advise them to do and why?

In Germany most interviewees advised renting. They felt that more stability was required for home ownership (see quotation below). In the Netherlands, some interviewees adjusted their view when advising young entrants on the housing market:

"As long as he's earning money it doesn't matter whether the job is permanent or not. [...] You can always find a job if you're willing to work. I don't think that a secure job should be a condition for buying a house. The banks want it, but if you can show that you have always found yourself a job, what does it matter if there are no permanent positions?"
(Home owner, female, 32, the Netherlands)

According to others, the couple should not worry too much; the financial situation will sort itself out in the long run:

"You worry, especially in a situation like this, that you can't cope with the payments. I know that from my own experience. I thought that's far too much, far too expensive, impossible, and then it always turned out... well, maybe we were lucky... better than you expected. You see things far worse than they are. Once you live there, you get pleasure from your home. A lot of things just fall into place. That's what I think."
(Home owner, male, 49, the Netherlands)

This advice was often underpinned with the argument that young people cannot find an appropriate and affordable dwelling in the rented sector. The Dutch social housing sector is considered inaccessible and the private rented sector too expensive. The Dutch interviewees explained that the monthly living expenses are lower when people buy a property. Consequently, they adjusted their views about the importance of certainties like a steady job and stable relationship. Remarkably, the mortgage guarantee was not explicitly mentioned in this context, neither were the fiscal aspects of home ownership in the Netherlands. Moreover, the Dutch interviewees did not mention concerns about the size of the mortgages of first-time buyers. Compared with the Germans, the Dutch have very high Loan-to-Value rates, some over 100 percent. The Dutch interviewees seemed to have faith in a favourable development in house prices and income security for young people. Most of them supported the government's ideas on income security and agreed that people are able to take responsibility and have the opportunities and capability to make money. The idea of income security among young people contrasts sharply with the unemployment figures in this group (see above).

The German interviewees considered renting as the most appropriate type of tenure for young people. And, anyway, renting offers the scope to establish the financial resources required for home ownership. Young Germans who leave the parental home rent a dwelling, save money, get a secure relationship and job, and finally when all the demands are met, they enter home ownership at an older age than their Dutch counterparts (see also Mulder & Wagner, 1998):

“Of course it's a question of how rich they are. It's understandable that they want to move out, but with only one person in a secure job, I wouldn't buy a flat or house. They should wait and see how their living situation and their financial situation develop. If I didn't have an incredible inheritance or something like that, I wouldn't put all my money and resources into home ownership. I would rent and live and travel. That would definitely be more important to me than buying a home. Live a bit before getting settled.”

(Home owner, male, 58, Germany)

The German interviewees feel that renting a home is an appropriate first step on the housing market. They think it is good to have flexibility and money left for other purposes. Moreover, in contrast with the Dutch, the Germans have to save a deposit before they can buy a house and therefore attach more value to a secure and stable situation before taking the step.

2.7.2 Income security

Although major changes are taking place in the labour market and the social security set-up in both countries, the German interviewees showed more

concern about a stable income than the Dutch. This might be attributable to the higher unemployment rate in Germany (see Section 2.3.2 Labour Market). The Germans, in general, are more often faced with the consequences of unemployment and might, as a result, perceive this risk as more likely than the Dutch interviewees. Further, it was clear from their responses that the German interviewees expected social benefits to be cut in the future, as the state would gradually withdraw from the welfare system. The younger people, for example, worried about the size of the state pension they would receive in the future (see also Section 2.4). The greater worries of the German interviewees about welfare and pensions do seem to relate to the differences in the institutional contexts. As described earlier, the demographic changes in Germany are more threatening and the pension system is more vulnerable. Despite changes to the Dutch welfare system, the Dutch interviewees were more optimistic; they trusted the social security system, the employers and their own capabilities:

“I don’t look at unemployment as a risk. No, I have a secure job with a solid Collective Labour Agreement and that kind of thing, but I also have the idea that as long as I stay healthy, I can afford to earn a bit less without affecting my ability to pay the mortgage.”
(Home owner, female, 49, the Netherlands)

When asked about unemployment, the Dutch interviewees referred to the collective labour agreements and to the relatively generous unemployment benefit of 70 percent (cf. 60 percent in Germany) of the last earned income. Moreover, they pointed out that redundancy often comes with favourable conditions. They did not expect difficulties with the monthly mortgage payments when receiving unemployment benefit. The Dutch interviewees still seem to perceive social security as a solid safety net.

2.7.3 Immobility

Inflexibility or immobility was emphasized mainly by the German interviewees: both tenants and home owners. Inflexibility was not mentioned by Dutch home owners, although it was argued that some young people should stay in the rented sector until they have a settled job and relationship. German homeowners might be more aware of the immobility associated with home ownership because most of them tend to perceive their current property as their final property (Helbrecht & Tegeder, 2005a). When a German household buys a dwelling it intends to stay in it for the rest of its life. In contrast, Dutch interviewees referred to steps in a housing career. It should be mentioned here that home ownership is often accompanied by parenthood. This in itself may make people feel more tied to their living environment. The difference in the feelings regarding immobility in the two countries does not relate to the

level of the transaction costs (Germany 3.5 percent; the Netherlands 8.1 percent (Neuteboom, 2002).

Furthermore, some German interviewees feared that it could be difficult to sell the property.

“Sure, home ownership suggests a kind of security, but on the other hand, it also means quite a financial risk, because you can’t sell a house as quickly, easily and securely as in the past or in other regions.” (Home owner, male, 50, Germany)

Some German interviewees described difficulties in selling dwellings after the death of parents. As mentioned earlier, the vacancy rate in Germany is higher than in the Netherlands, although there are considerable regional differences. Thus, besides the idea that people buy a house once in a lifetime, the situation on the housing market contributes to the notion that home ownership is not compatible with a lifestyle that needs flexibility and mobility.

2.8 Perceptions of mortgage debts and housing equity

Besides considerations about income security and flexibility, an owner-occupied dwelling and its financial implications, in themselves, have an impact on feelings of security and insecurity. Interviewees from both countries mentioned that home ownership implies responsibility, which has a negative and positive side. On the one hand, it exerts negative pressure: some interviewees experienced the debt as a heavy burden. Every month a home owner must repay a small part of the loan plus interest. In both countries first-time buyers take up loans for as long as 30 years. On the other hand, in the long run the debt shrinks and the owner-occupier accumulates equity, which is seen as a nest egg and thus provides a sense of security. It is conceivable that the differences between the two countries (see Table 2.7) stem from differences in house-price developments, fiscal policies and mortgage products.

2.8.1 Housing equity

First, an owner-occupied dwelling is considered as a financial buffer, something for a rainy day, a nest egg. In general, interviewees from both the Netherlands and Germany regarded their dwelling as a good and safe investment. This feeling seemed to be based on experience of rising house prices in both countries in the last decades (see Section 2.5). However, in Germany in particular, the younger generation is pessimistic about future house-price developments. They expect demographic changes to cause the prices to fall: the population is shrinking and the housing supply is exceeding the demand. As

Table 2.7 Differences in perceptions of (in)security of home ownership in Germany and the Netherlands

Subject	German interviewees	Dutch interviewees
Housing equity – price developments	Insecure Experienced selling problems Expect unfavourable development – shrinking population	Secure No worries about selling Tenants feel as if they have missed the boat
Housing equity – mortgage debt	Repay as soon as possible Having a loan and paying interest is expensive Adjust lifestyle to repay Debts of 70-80% at most	Mortgage debt is encouraged with fiscal policy Mortgage forms designed to delay repayment are most popular High debts up to 112%
Housing equity – living rent-free in old age	Very important 'Pension in stone'	An extra Living rent-free is an advantage compared with tenancy
Monthly housing expenses	Secure, decreasing	Secure, insecure, stable Secure compared with insecurity of tenants due to rent deregulation Insecure due to policy debate on tax deduction

mentioned above, some of the German interviewees had already experienced difficulties selling their parents' under-maintained homes. Consequently, some of them claimed that a rented dwelling is the simplest way of avoiding the risks of home ownership. The Dutch interviewees expected house prices to continue to rise and felt very secure about the equity, although they often said that they did not expect the prices to increase as rapidly as in the past decades. Some tenants remarked that they felt they had missed the boat; they thought that young people should buy because home ownership held certain advantages.

The German and the Dutch interviewees showed different attitudes towards mortgage debts. The Dutch found it completely natural that first-time buyers take out mortgages of over 100 percent, whereas the German interviewees felt the pressure of saving for a deposit first and borrowed a maximum of 70-80 percent of the value of the dwelling. Even then the mortgage was experienced as a burden. Further, the Dutch interviewees stated that it was unwise to pay off the full amount and favoured an interest-only mortgage for at least part of the debt. The difference is illustrated in the Loan-to-Value ratios and the percentages of homeowners with a mortgage in Germany and the Netherlands.

One explanation for this difference may be found in the responses to the following case: 'A friend inherits 50,000 euros. She has a mortgage of 70,000 euros and expects to work for another 16 years. She asks your advice about what to do with the money. What would you advise her and why?' In general, the German interviewees believed that people should repay the mortgage while the Dutch thought the opposite:

"Pay off the mortgage right away! Each repaid euro saves interest and compound interest. Only if she finds a capital investment, which offers her more interest than she pays now for her mortgage, would I tell her to invest. But that's impossible at the moment. No, each repaid euro is worth gold. I would always repay!" (Home owner, female, 37, Germany)

“Well, not for the mortgage! Put it in stocks and shares! I would invest it in stocks or have a nice holiday. I don’t know what kind of person she is. Or as a nest egg, or something... I wouldn’t repay the mortgage, that would be unfavourable for the deduction. And when she keeps working...” (Home owner, male, 50, the Netherlands)

One advantage of home ownership and building up housing equity is the prospect of living rent-free in your old age or, in case of need, homeowners can enhance their financial provision by selling up. Some German interviewees called their dwellings ‘a pension in stone’. Especially young German interviewees felt insecure about the size of their future pensions and therefore attached value to this aspect of home ownership. Despite the reluctance to fully repay a mortgage, the Dutch interviewees too perceived living rent-free or at least with lower expenses in old age as better than tenancy.

2.8.2 Monthly housing expenses

Not only did home owning interviewees feel secure about their monthly housing expenses in old age, they also felt secure about their regular monthly housing expenses during the usual mortgage period. When the home owning interviewees compared their own situation with the situation of a tenant they felt that mortgage repayments were more stable and even cheaper. In the Netherlands, interviewees referred, primarily to these monthly housing expenses, as being far preferable to rent increases. The reason why the Dutch emphasized this aspect may be partly tied in with government plans to deregulate rents, which might trigger steep rises. However, the Dutch interviewees also described feelings of insecurity triggered by the current policy debate on whether to rescind tax relief on mortgage interest. They perceived this possible policy change as a risk which would push up the monthly housing expenditure and might put pressure on house prices.

As described earlier, the German interviewees felt it important to repay the mortgage, so they cut back on their spending (e.g. on leisure, holidays, car), especially those who had just become home owners. They wanted to reduce the monthly repayments. The released money could in turn be used for purposes for which it had been put on hold due to the high outstanding debts:

“By now I think it’s a good feeling, because I notice that the amount I pay to the bank every month, decreases every month. I didn’t think of that before we owned our home. [...] We’ve also repaid a lot already. That also means freedom, because I have to pay less. Freedom to spend the money on other things.”
(Homeowner, female, 41, Germany)

Most Dutch interviewees did not experience lower monthly mortgage expenses; they had other types of mortgage products (savings and interest-only

mortgages) than the German interviewees.

An important assumption that interviewees in both countries made is that interest rates will not affect their monthly expenses. To most of them this seemed a logical conclusion, as they had fixed-term interest rates. Recent experience of declining interest rates might also explain these feelings of confidence.

2.9 Conclusions

There are strong similarities in the trends to restructure the welfare system in the Netherlands and Germany: the size of state benefits is gradually being reduced, additional payments are being transferred to the individual and the criteria for claiming benefits are getting tougher. Judging by EU standards, however, both countries still grant benefits on a fairly generous level. The Netherlands is more flexible in meeting the pension challenges raised by an aging society. The German pension system is still awaiting efficient adaptation. There are huge differences in two key aspects of the institutional framework:

- The labour market in the Netherlands is developing more positively than in Germany. The unemployment rate is lower and fewer Dutch interviewees were concerned about the risk of unemployment. They believed they would find a new job without too much trouble. The German interviewees expressed much more concern. The attitude towards debt might stem from the perceived insecurity in the labour force; German interviewees felt more pressure when taking on financial liabilities.
- Although both countries expect aging, the Dutch population is still on the increase whereas the German population has already begun to diminish. This will affect the development of the housing market. While house prices in the Netherlands rise – although at a slower rate than before – house prices in Germany are stagnating on average. One has to bear in mind, however, that the German housing market is extremely heterogeneous with a few high-price regions in the metropolitan areas and the south.

These two trends seem to mould the perception of housing-related security to a great extent. Both groups saw home ownership as a cornerstone for financial security in various ways. It provides security, as housing equity creates a nest egg, a pension in stone, a possibility to live rent-free in old age and something to leave the children. However, the accumulation of housing equity appears to differ in the two countries. German interviewees wanted to pay off the mortgage as soon as possible, while Dutch interviewees planned a maximum mortgage for as long as possible because of tax benefits. To German households, paying off the mortgage and hence 'being financially on

the safe side' seemed the best way of building housing equity, while for the Dutch, rising house prices were more important. This might explain why young households in the Netherlands are encouraged to buy as soon as possible and why German households are encouraged to wait and save the money for a deposit. The interviewees also expressed feelings of insecurity about their owner-occupied dwelling. German interviewees worried about house-price developments and the difficulties of selling the dwelling, while Dutch interviewees worried mainly about possible changes in the fiscal aspects of home ownership.

The impact of buying a home seems different in each country. In the Netherlands, it seems to be perceived a step in a housing career. In Germany most people buy a dwelling for life and therefore put it off until their household situation is more or less stable. Buying a home is perceived as the start of a new stage in life and the end of being mobile. Accordingly, buying is a very important event in Germany and is presumably treated with more caution than in the Netherlands. Moreover, people save and wait before buying. Buying in Germany seems therefore to be regarded as a sign of security.

The central hypothesis of this paper – that the German and Dutch interviewees perceive security/insecurity of home ownership in different ways – has been affirmed. Feelings of security and insecurity regarding home ownership and income differ consistently between these two countries. These differences can be largely explained by different national contexts. Differences in perception can be explained by differences in the labour, housing and mortgage markets in both countries and how people expect them to develop in the future. One very important development that affects the market as well as government policy in Germany is the declining population. Potential changes in the social security and pension system and housing policy also make households in both countries feel insecure – but to different degrees – because they do not know what will happen.

Different perceptions of (in)security of home ownership can, to a large extent, be explained by differences in the context. However, this leaves unanswered the question of whether 'culture' matters; or, in other words, if the perceptions of German and Dutch households would still be different under the same institutional circumstances.

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3 Exploring ‘housing asset-based welfare’

Can the UK be held up as an example for Europe?

Janneke Toussaint & Marja Elsinga, Housing Studies, 24 (5), pp. 669-692, September 2009, Taylor & Francis (www.tandf.co.uk).

Abstract

In the UK, home ownership has become increasingly important as a financial asset used for welfare needs, particularly during old age. It has been suggested that other European countries will follow the example of the UK. Traditionally, home ownership has been regarded positively because of the low housing expenses associated with outright ownership and the financial benefit of having a nest egg that can be released, if needed, by selling. New mortgage-equity release products reduce liquidity constraints and are regarded as promising in the context of changing welfare states. This research focuses on household strategies. It finds that housing assets play a role in households' financial planning in all countries within the study, particularly where welfare levels are low or decreasing. Home ownership was used in the traditional way in all countries, but it is only in the UK that households have adopted mortgage-equity release products to cash in their housing equity for welfare needs.

Keywords

Home ownership, housing equity, asset-based welfare, security, cross-country comparison

3.1 Housing assets and welfare

Housing is an important asset, which for many represents the most significant investment of their lives. Over the last 25 years, increasing numbers of European households have become homeowners (Doling & Ford, 2007). This is often achieved by means of a mortgage whereby housing equity is amassed as the mortgage is repaid. In many countries, this equity has grown even further as a result of rising house prices. The result has been a substantial rise in households' housing wealth (Horsewood & Neuteboom, 2006).

At the same time, it has been suggested that there is a tendency towards increasing income insecurity for European citizens. In the face of globalisation and ageing populations, welfare expenses would be reduced in order to ensure economic survival (Beck, 1986; Esping-Andersen, 1996; O'Malley, 2004). Risks such as unemployment and illness, which used to be collectively governed through social insurance, are believed to be better organised by individuals and markets. In addition, the growth of the relative size of the older generation has undermined the affordability of future state pensions. Receiving a state pension at a comparable level to the current one is not a foregone

conclusion for future generations (Börsch-Supan & Brugiavini, 2001; Esping-Andersen, 1996). In response, households must be self-sufficient, make decisions about private safety net strategies and ensure that they can protect themselves against financial difficulties (Giddens, 1984). It is in this context that housing equity has been suggested as a financial safety net for households (Groves *et al.*, 2007; Kemeny, 2005).

For households, accumulating equity is often an important reason for buying a home (Elsinga, 1998) and for governments too, this aspect of home ownership is a reason to encourage it. Housing wealth has hitherto tended to remain illiquid during people's lives, and has thus remained locked up in the house until, and unless, homeowners decide to sell. However, since the restrictions on the use and terms of loans were loosened, European financial markets have developed rapidly (Scanlon *et al.*, 2008; Stephens, 2007). Increasing numbers of households have become eligible for mortgages and a variety of products to release housing equity have also emerged which enable homes to be used as a kind of 'ATM' (Klyuev & Mills, 2007). Mortgage-equity release gives households the opportunity to convert their housing assets into available cash without having to sell and move out.

Recently, the growth of housing wealth, falling welfare levels and increasing opportunities to release housing equity have been brought together by various housing researchers (Groves *et al.*, 2007; Izuhara, 2007; Jarvis, 2008; Malpass, 2008; Ong, 2008; Ronald, 2007; Smith & Searle, 2008). They take the new concept of 'asset-based welfare policies' as their framework (Sherraden, 1991). This is introduced as an alternative to means-tested welfare. Rather than making people dependent on benefits, it is thought to be better to encourage them to save and accumulate assets. These assets can then be used as a safety net. In the UK, the encouragement of home ownership is regarded as a strand of asset-based welfare policies, and home ownership is becoming a more important aspect of welfare, particularly as a source of income security during old age (Groves *et al.*, 2007; Rowlingson, 2006).

Research on this issue has hitherto mainly been carried out by Anglo-Saxon researchers¹, and Britain has often been cited as the leading example in Europe. However, there is no strong evidence of any convergence among the various welfare states of Europe (Starke *et al.*, 2008), and mortgage markets function differently in different European countries (Stephens, 2003). Neither has the limited research that has been conducted in other European countries confirmed a similar trend in the use of housing equity for welfare needs (Haffner, 2008; Turner & Yang, 2006). This paper elaborates further on 'housing asset-based welfare' and attempts to reveal to what extent seven European

¹ By searching for 'housing-asset-based welfare' on Google Scholar, and exploring the origins of the first 20 hits, ten are from the UK, nine from the US and one from Australia.

countries resemble the UK.

The comparison of the countries is based on the results of the EU project OSIS.² The general aim of the OSIS project was to identify the level, nature and source of security and insecurity in home ownership in European countries. The OSIS project was unique, as part of it used qualitative studies to build up an understanding of how and why households in different national contexts behave as they do. Partners from eight European countries collaborated to deliver country reports, which provided strong basis for the country comparison.

1. What is housing asset-based welfare, in theory?
2. How do countries compare in terms of their relevant institutional characteristics?
3. To what extent can housing asset-based welfare be found in households' perceptions in various countries, and which institutional characteristics matter?

The first section will outline the methodology of the research. The paper will then be structured along the lines of the research questions. To conclude, there will be a short discussion.

3.2 Methodology

The paper consists of three parts which all seek to reveal 'housing asset-based welfare': (1) in theory; (2) in the institutional characteristics of the countries; and (3) in the perceptions of households.

First, the theory on 'housing asset-based welfare' will be explained, beginning with the concept of 'asset-based welfare policies', as introduced in the US by Sherraden (1991), and then it will be explained how housing could have a place in that. There will then be an overview of existing literature on the relationship between welfare and home ownership. It appears the idea that home ownership can play an important role in providing a safety net for households in poorly developed welfare states is not new. The distinction is drawn between 'traditional' and 'new' 'housing asset-based welfare'.

Subsequently, eight EU countries³ will be compared. The countries were selected to reflect a number of relevant variations: (1) variation in the rates of home ownership: high (Hungary) and low (Germany); (2) variation in the various types of welfare regimes: social democratic (Sweden), conservative (Germany), liberal (UK), Latin rim (Portugal); former Eastern Europe (Hungary), (Doling, 2003). Research partners have described institutional contexts and

² Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance and social security (OSIS).

³ Belgium, Finland, Germany, Hungary, the Netherlands, Portugal, Sweden and the UK.

have written reports on household interviews. These reports formed the data-sources for the analysis.

The paper will briefly set out some of the relevant institutional characteristics. It has opted to focus on the topics most relevant to the issue: welfare, housing markets, housing policies and mortgage markets. Key indicators are compared, although these do not provide an exhaustive comparison of institutional characteristics.

The paper will then examine the results of in-depth household interviews. Interviews with more than 240 owner occupiers and tenants were conducted in the selected countries according to a semi-structured topic list in spring and summer of 2005. Purposive sampling procedures were utilised to recruit a similar range of respondents in the various countries. Target quotas were set for tenure, age, employment status, household structure and gender. Thirty households were interviewed per country. The outcomes were analysed to find the answer to similar research questions and resulted in similarly structured reports. However, at the same time an important aim was to leave space for country-specific issues (Quilgars, 2009; Toussaint *et al.*, 2007).

The analysis for the country comparison was carried out in two steps. First, household perceptions were analysed and the countries were grouped on the basis of similarities or differences in outcomes. Then, the links between perceptions and institutional contexts were explored by comparing the explanations of the households and the research partners. Afterwards, key characteristics were also compared.

The comparative analysis relies on three subsequent interpretative steps, during which misinterpretations could arise easily. First, the respondents described their housing decisions, histories and opinions in words; they recalled events and information from memory and constructed their 'housing perceptions'. During the second phase, researchers in each country interpreted these housing perceptions, and translated them into conclusions summarising the findings of the interviews. Finally, as a third step, the findings from each country were further analysed, interpreted and summarised to compare the countries. To minimise tenuousness and clarify who exactly interpreted what, the paper distinguishes between the views of the respondents, the interpretations of the research partners and the authors' own overall interpretations when describing the outcomes of the comparative analysis. It should also be mentioned that difficulties can arise if something is mentioned in one country, but not in another; this could either be because it does not exist, or because it is considered self-evident. To limit interpretative mistakes to a minimum, the researchers from each country reviewed the outcomes of the analysis.

The purpose of this paper is to critically introduce the theoretical concept of 'housing asset-based welfare' and, subsequently, to determine whether it can be said to exist in various European countries. The analysis and explo-

ration of institutional contexts receives relatively little attention in this paper. The main focus is on household perceptions, which reveal how 'housing asset-based welfare' fits in with social norms and culture. The research is based on a small sample of households from each country. Therefore, the aim is not to generalise the findings to the national level, but to provide an understanding of the relationship between home ownership and welfare provision in household perceptions in various countries.

3.3 The theory of 'housing asset-based welfare'

3.3.1 Asset-based welfare policies

The concept of 'asset-based welfare policies' was used as a framework for the new role of housing equity in welfare (Groves *et al.*, 2007; Izuhara, 2007; Jarvis, 2008; Ong, 2008; Ronald, 2007). This concept was introduced in the US by Sherraden (1991), who claimed that means-tested welfare makes the poor dependent and incapable of creating opportunities to better themselves. He could see a role for assets in welfare policies. In his opinion, assets change the way people think about the world: they make people consider the long term and set themselves long-term goals. Moreover, it has been suggested that holding assets leads to increased community participation and investment in financial instruments and enterprise, leading to greater returns. Interestingly, Sherraden based much of his reasoning on research into the positive effects of home ownership on people's behaviour (Rossi & Weber, 1996; Saunders, 1990). However, this research has been criticised for the universality of its claims. It has been criticised principally because for low-income households, home ownership has not been unequivocally beneficial. On the contrary, it has been a cause of financial troubles and, consequently, social problems (Ford *et al.*, 2001; Nettleton & Burrows, 1998; Shlay, 2006). Furthermore, the consequences of subprime lending practices in the US have shown that home ownership does not always impact positively. Nevertheless, Sherraden holds the opinion that an active social policy that promotes engagement is better suited to the post-industrial society than traditional welfare arrangements. He emphasises the fact that asset-based policies should always be inclusive. All types of households should be involved, otherwise inequality between rich and poor will grow (Sherraden, 1991, 2003).

3.3.2 Some examples

There are a number of examples of 'asset-based welfare policies': in the US, the Individual Retirement Accounts (IRA) for pensions savings and Educational Savings Accounts; and in the UK the Saving Gateway and the Child

Trust Fund. The most extensive example is the Central Provident Fund (CPF), a mandatory savings scheme in Singapore (Sherraden *et al.*, 1995). Here, the government wants to avoid creating

a culture of entitlement, encouraging Singaporeans to seek Government support as a matter of right, whether or not they need it [...] The better-off must help the poor and the disadvantaged – the sick, the elderly, the disabled and the unemployed. (Phang, 2007, p. 18)

To this end, Singaporean employees are obliged to set aside a certain share of their monthly salary in the CPF, and their employers also contribute a certain share. As a result, Singapore has the highest savings rate per citizen in the world. The CPF was originally established as a pension plan in 1955, but now the uses of the fund are broader. Employees can withdraw savings for health care, insurance, post-secondary education, retirement and housing. In fact, financing home ownership has become the most important function of the savings fund. One of the problems of this is that once the savings are locked up in bricks and mortar, there are serious liquidity constraints. If the assets are required for Singaporean citizens' welfare needs, the house must be sold. Another problem is that price volatility has significantly impacted on the wealth levels of households (Phang, 2007; Sherraden *et al.*, 1995).

Groves *et al.* (2007) set out examples of developments in home ownership and welfare states in a number of East Asian countries, including Singapore. Economic growth is the main focus of attention, and policy is directed at mainstream society rather than targeting poorer sections of society. In the East Asian countries discussed, massive policy efforts on the part of governments have increased rates of home ownership. Groves *et al.* explain that these efforts can be seen as an element of welfare policy.

The authors further explored how developments with respect to welfare and home ownership in European countries compare to the East Asian cases. First a comparison was made with Britain and Groves *et al.* (2007) argue that there are some similarities. The British Government also regards asset-based policies as an additional pillar of their welfare system and home ownership is an explicit part of this. Low-income households have been encouraged to buy their homes through various schemes, most notably Right to Buy, shared ownership and Homebuy. The British Government has also sought to overcome liquidity constraints and has attempted to use the deregulation of the financial market to simplify the release of housing equity. Mortgage-equity release now represents 20 percent of all mortgage lending (Quilgars & Jones, 2007). Home ownership has become an important factor in ensuring financial well-being in old age. British homeowners who move into long-term care have to fund this from the equity held in their homes. Elderly people on

very low incomes use equity release to supplement their income, and housing equity is also used to meet the cost of education. Research into the attitudes of British households towards housing equity and inheritance shows that housing is increasingly seen as a form of financial investment. The idea that one's home functions as one's pension seems to be taking hold (Ronald, 2007; Rowlingson, 2006).

Within Europe, the UK's policies are the clearest example of 'housing asset-based welfare'. However, many other European governments also encourage home ownership because they want households to build up housing equity, encourage responsibility among households and promote involvement in the neighbourhood and society as a whole (see for example Rohe *et al.* (2001)). These ideas were mentioned in policy documents in Germany and the Netherlands as early as the 1950s (Elsinga, 1995; Kloth, 2005) and they reflect the basic idea of asset-based welfare policy surprisingly closely. The *Bausparkassen* in Germany can be seen as an asset-based welfare policy, as can the mortgage interest deduction in the Netherlands.⁴ In Belgium, some influential political parties make an explicit link between home ownership and financial security in old age. Retired outright owners have reduced or non-existent housing expenses in old age, which is a great advantage compared to tenants (De Decker, 2007).

Groves *et al.* (2007) regard increasing rates of home ownership and the transformation of social rental housing into a residual sector as indications that the Old European welfare states are converging towards the British situation. Groves *et al.* point to countries such as Sweden, Germany and the Netherlands. They suggest that

the pattern identified in Britain is being reproduced elsewhere in Europe and the new model welfare states in these countries put individual property-ownership in a more central position, much more comparable with that of East-Asia. (Groves *et al.*, 2007, p. 193)

In sum, home ownership may also be thought of as a potential resource for meeting welfare needs; the UK is said to be a leading example for the rest of Europe.

3.3.3 Household strategies

Until now, the paper has described housing asset-based welfare as a result of governments' policies. However, there are also theories that explain the ex-

⁴ Although in theory the mortgage tax deduction encourages households to enter home ownership and thus accumulate assets, the practical outcome is that households retain higher debts. The more debt they retain, the larger the tax deduction they are eligible for.

istence of housing asset-based welfare through the strategies of households. Sociologist Jim Kemeny distinguishes housing systems with dual rental markets and unitary rental markets (Kemeny, 1981, 1995). The former are systems where the social rental sector functions as a safety net, and is separated from the private housing market. This is mostly found in countries with an ideology of privatisation and economic liberalism, where social renting is only an alternative for the most vulnerable households. The private rental sector is often unattractive due to high rents and an absence of tenant protection and rent regulation, and this means that households are pushed into home ownership. In unitary rental systems, by contrast, the social rental sector is not separated and housing policies stimulate direct competition between the profit and non-profit rental housing sectors. There is rent regulation and protection for tenants, so that renting is regarded as an attractive alternative to home ownership. This system most often exists in countries where intervention in markets is generally viewed as necessary and acceptable.⁵

Kemeny (1981) theorises that in countries with a dual rental system, the high levels of home ownership have an impact on welfare policies. These countries are more likely to have poorly developed welfare states. This results from the fact that home ownership redistributes income within the life cycle of households. This first step is saving a deposit while living in the parental home or a rental dwelling. First-time buyers have a very high mortgage burden, which means they are more likely to oppose high taxes. Then, by the time the homeowners reach old age, they have become outright owners; consequently, their housing expenses are much reduced and homeowners are less dependent on state pensions. Housing equity can also be consumed outside the housing market, by selling or remortgaging.

In Kemeny's early work, the most important explanatory factor in the relationship between home ownership and welfare provision was the causal impact of the housing system on the welfare provision. However, Saunders could not confirm the assumed greater resistance to taxes among homeowners (Saunders, 1990). Moreover, in Britain, home ownership rates increased during periods when post-war welfare states were developed; these parallel developments are also not in line with Kemeny's reasoning. In general, the great weight that has been given to housing as a causal variable has not been taken into account in further housing research (Malpass, 2008).

However, Castles (1998), a researcher in the field of welfare systems, did test the hypothesis and confirmed the relationship between welfare provision and home ownership rates on the basis of statistical comparisons between a number of Western countries. He showed that high levels of home ownership could compensate to some extent for the lower level of welfare provision.

⁵ For a clear explanation of Kemeny's different rental systems see also Hoekstra (2009).

However, Castles added the explanation that a weak welfare state might be an incentive for young households to buy a home to build up their assets. In other words, welfare systems may impact on housing in that home ownership may be part of households' financial security strategy.

Kemeny (2005) adopted this explanation from Castles, and suggested that the tendency of declining welfare provision in many European countries could have a significant impact on the tenure structures of countries with unitary rental systems. Thus, whereas Kemeny (2005) initially theorised divergence between countries, he argued that decreasing welfare provision could have a uniform impact on households' choices for home ownership. Various researchers reacted to his idea of a 'universal' trade-off between home ownership and welfare levels (Boelhouwer & Heijden, 2005; Castles, 2005; Doling & Horsewood, 2005; Somerville, 2005). First, it was pointed out that the different origins and complex nature of the housing and welfare systems make the relationship less than straightforward (Boelhouwer & Heijden, 2005; Somerville, 2005). Second, Kemeny's assumption that people would start saving in response to the decline in welfare provision, and more specifically save in the form of housing equity, was questioned. It was argued that households may prefer to save in other ways (Boelhouwer & Heijden, 2005) or may, in case of pensions reductions, work longer (Doling & Horsewood, 2003, 2005). Nevertheless, Kemeny's reasoning was regarded as theoretically interesting and as deserving of further empirical investigation (Castles, 2005; Doling & Horsewood, 2005).

In recent research, Haffner (2008) and Turner & Yang (2006) found that housing equity release is not currently common practice among the elderly. Haffner (2008) collated evidence from various sources to clarify the situation in the Netherlands. She found that the Dutch elderly were not in favour of releasing housing equity, but preferred to use other assets or savings when they needed extra money. Downsizing, or selling and subsequently renting a home, were also not regarded as attractive options. People generally aimed to pass on housing wealth to the next generation. Turner & Yang (2006) analysed equity formation and equity use on the basis of panel data from a number of EU countries. They showed that older homeowners have significantly lower housing expenses and have a correspondingly high level of housing wealth. Furthermore, the mobility of the elderly is lower than that of the young; on average the elderly stay in their homes for 20 years. Turner & Yang argue that older homeowners have a considerable financial advantage over those in the rental market, because they benefit from the low housing costs. This would be sufficient for financial security. Overall, homeowners do not need to release housing equity through mobility or through mortgage-equity release.

Essentially, the theory distinguishes 'housing asset-based welfare' that is enforced by governments' policies (Groves et al., 2007; Sherraden, 1991), and 'housing asset-based welfare' that is result of household strategies (Kemeny, 2005). A distinction between 'traditional' and 'new' 'housing asset-based wel-

fare' can be drawn from the literature described above. 'Traditionally', home ownership has been seen as an opportunity for households to accumulate housing equity. The main advantages are lower housing expenses in old age and a nest egg which can be released by selling the home, if required. These uses of home ownership can be called 'traditional' 'housing asset-based welfare'. The 'new' way in which home ownership is being exploited is as a financial resource – this is happening through housing equity release while households remain in their homes. The evolving opportunities on the British financial markets and government policies towards home ownership have led to the concept of 'new' 'housing asset-based welfare'.

Interest in this topic among British researchers has grown recently because the British Government has made home ownership explicitly part of their asset-based welfare policies, and new products have been launched onto the mortgage markets which enable housing equity to be liquidised. However, pressure on government welfare spending, and pensions in particular, is not confined to Britain, but affects many European countries (OECD, 2007). Home ownership has also grown in most countries during the last decade, meaning that the scope for liquidising capital on mortgage markets has also increased substantially.

The purpose of this paper is to examine more closely the relationship between welfare and home ownership in households' perceptions in different European countries. To what extent do households perceive their homes to be assets which they can use in their financial safety net planning for welfare needs (Kemeny, 2005)? Can we find 'housing asset-based welfare', both traditional and new, in all these countries?

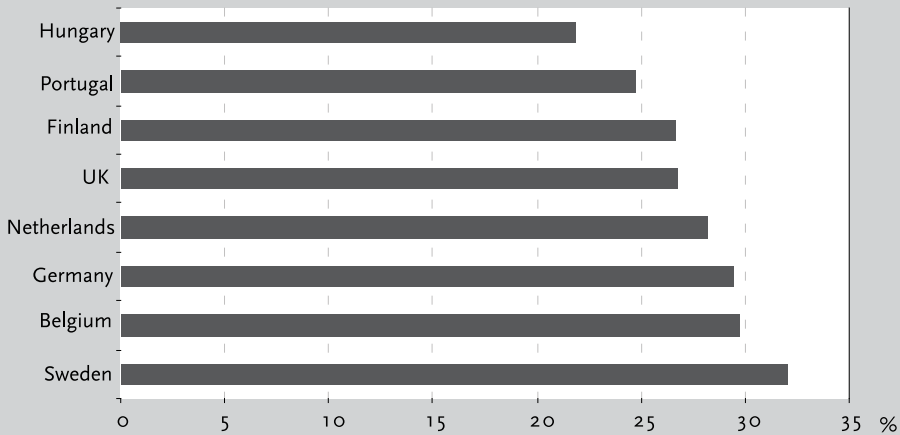
3.4 Setting the scene: Comparing countries' institutional characteristics

Before turning to perceptions among households, the scene will be set by comparing some indicators of relevant aspects of the countries studied: welfare, housing markets, housing policy and mortgage market. Comparative statistics and reports by OSIS-research partners on institutional contexts will be used (Elsinga *et al.*, 2007).

3.4.1 Welfare

First, welfare levels will be compared. A global indicator for welfare levels is total expenditure on social provision as a percentage of GDP. Figure 3.1 shows that in 2005 Hungary and Portugal had the lowest expenditure, while Belgium and Sweden had the highest. The literature suggests that in countries with lower levels of welfare, households should perceive home ownership as more

Figure 3.1 Total expenditure on social provision in 8 European countries as a percentage of GDP in 2005



Source: Eurostat

important for their welfare needs.

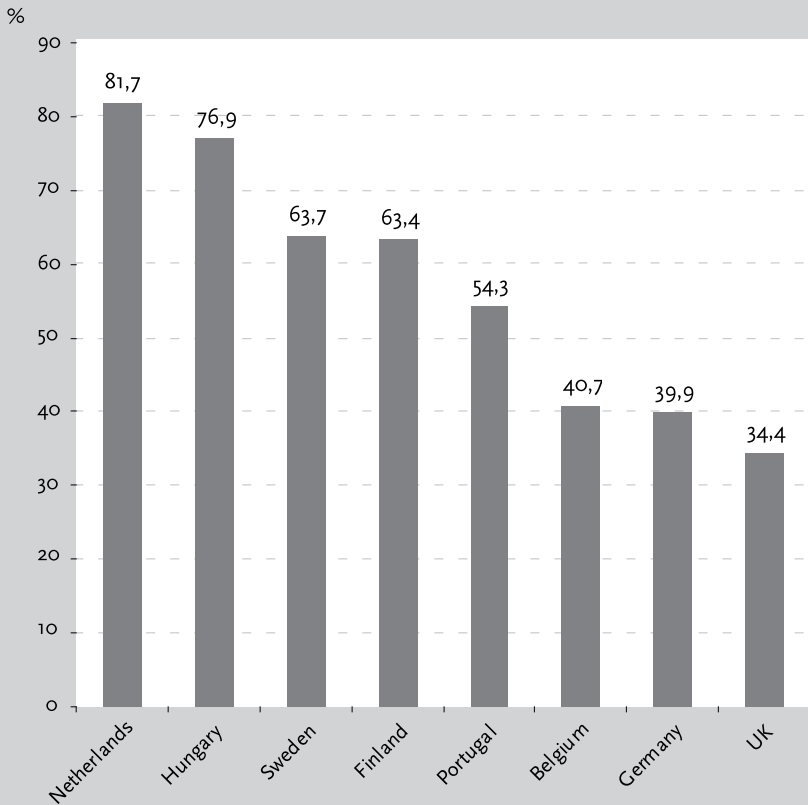
Pensions, specifically, are assumed to be relevant to the role played by home ownership. There have been major reforms in many European countries' pension policies which have meant that people have to save more to compensate for these reforms and sustain their living standards (OECD, 2007). To give an impression of the extent to which individuals have to take care of private pensions in different countries, Figure 3.2 shows replacement rates. The old-age pension replacement rate is a measure of how effectively a pension system provides income during retirement. It is the ratio of the pension over the individual's average earnings. The figure shows that households in the UK, Germany and Belgium receive the lowest pensions and those in the Netherlands and Hungary receive the highest (OECD, 2007).

3.4.2 Housing markets

Figure 3.3 shows the considerable differences between countries regarding tenure structure. Hungary and Portugal have the largest owner-occupation sectors, while Germany stands out as having a stable home ownership sector that accounts for less than half of the housing stock at 42 percent. The percentages of social housing range from low (3 percent in Portugal) to high (35 percent in the Netherlands). Overall, the social housing sector has been shrinking and is increasingly targeted at the most vulnerable households. Nevertheless, issues of the affordability and accessibility of home ownership have recently led to an increase in attention to social housing in some countries (Whitehead & Scanlon, 2007).

Figure 3.4 shows how house prices have developed over the long and short term. In Portugal and Germany, house prices have been declining and in certain areas of both countries, vacancy rates are relatively high. In Germany, these problems are concentrated mainly in the East, and future prospects are not good because of the expected impact of the ageing population (Tegeger &

Figure 3.2 Pensions: gross replacement rates for median earners (men) in 8 European countries, in 2004



Note: The gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings for median earners. Thus, the pension benefits as a percentage of individual lifetime average earnings (not final earnings before retirement).

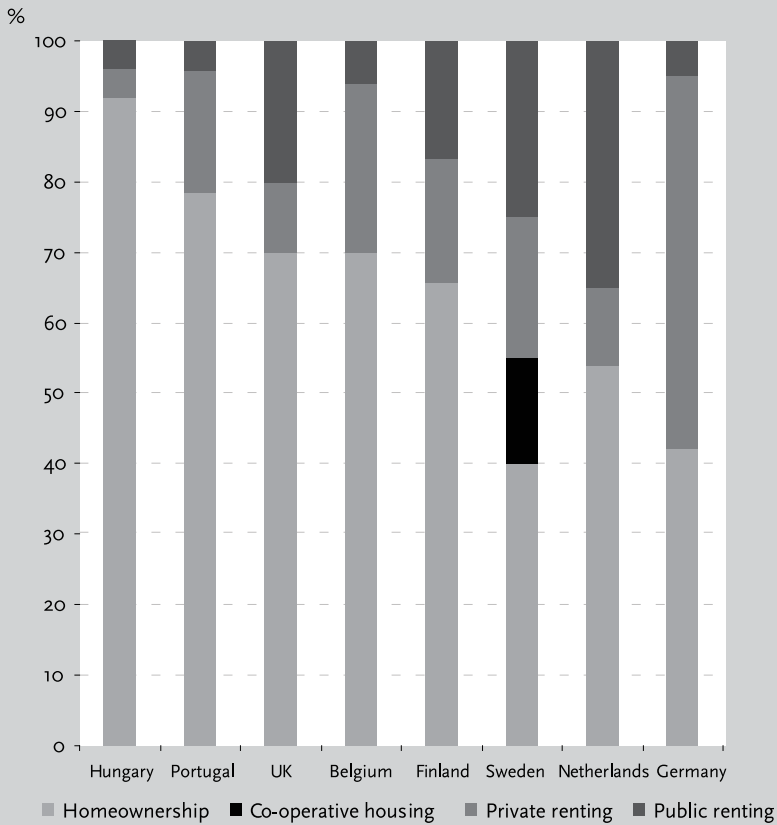
Source: OECD (2007)

Helbrecht, 2007). British and Swedish homeowners have seen their housing equity grow the most rapidly.

3.4.3 Housing policy

Table 3.1 shows some aspects of housing policy relevant to housing asset-based welfare. First, in most countries the encouragement of home ownership appears to be a policy objective. Sweden is the only exception in this respect. The ambition of encouraging home ownership seems to prevail both in countries with relatively high rates of home ownership (Belgium and the UK) and in countries with lower rates (Germany and the Netherlands). In most countries, housing policy aims at making the public or social rental sector a minority tenure. The sector is either described as small, diminishing or under discussion (Elsinga et al., 2007).

Figure 3.3 Tenure structure in 8 European countries (period 2003-2005, different years for different countries)



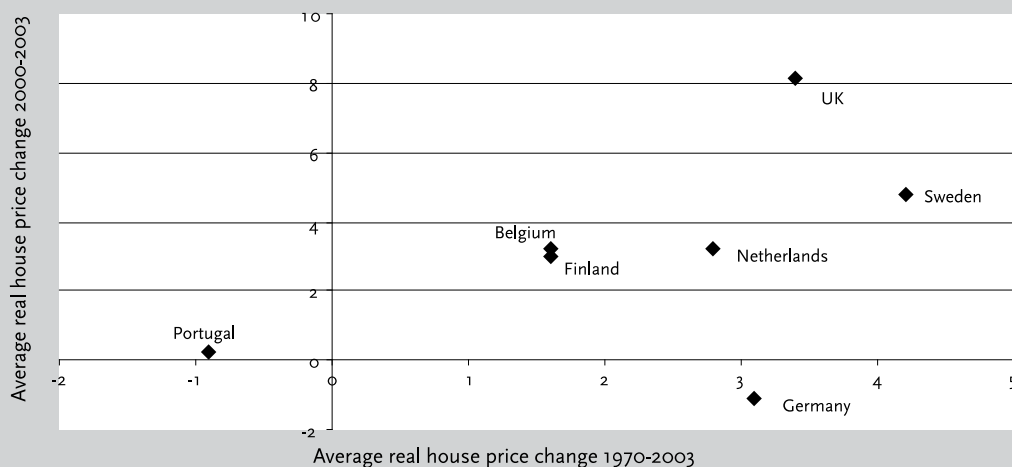
Source: Institutional Studies (OSIS)

3.4.4 Mortgage system

In general terms, the European mortgage markets have been developing rapidly over the last decade (Scanlon *et al.*, 2008; Stephens, 2007). In most countries, lending conditions have become more generous, mortgage lenders have developed new products, loans have often been extended, and falling interest rates have often contributed to relatively high take-up rates. For European households, buying a house normally goes hand-in-hand with having a mortgage. One exception is Hungary, where there is no substantial mortgage market, the majority of homeowners have full equity and family support plays a crucial role in housing finance (Hegedüs & Teller, 2007).

Developments have not simply led to convergence of housing finance systems among the various countries (Maclennan *et al.*, 1998; Stephens, 2003, 2007). Table 3.2 provides a brief overview of differences in rates of mortgage use. The Dutch stand out as heavy users, with a high share of mortgagees and high loan to value ratios, and interest-only loans are also popular in the Netherlands. It could be said that Dutch homeowners are not accumulating as much housing equity as they could by a long margin. Despite the lack of

Figure 3.4 Average real house price changes 1970-2003 and 2000-2003 in % per year, for 7 European countries



* Data for Hungary not available.

Source: Bank of International Settlements (2006)

Table 3.1 Housing policy towards home ownership in 8 European countries

	Belgium	Germany	Finland	Hungary	Netherlands	Portugal	Sweden	UK
Home ownership encouraged	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Social renting policy	Small sector	Decreasing public rental housing; social housing provided by private landlords	Stable minority tenure	Residual sector	Large sector under discussion	Rehouse from shanty towns	No exclusive social housing	Transfer from public landlord to housing associations

Source: International Studies (OSIS)

data, Table 3.2 also shows high figures for Sweden, where housing equity is being used for other aims in order to optimise their fiscal result (Andersson, 2007). Hungary and Portugal are the best accumulators of equity, while the other countries are average.

Overall, housing policy and the development of mortgage markets are supporting the growth of home ownership. These conditions could be supportive of housing asset-based welfare. Looking at the relationship between levels of welfare and home ownership rates, based simply on the key indicators, it appears that these relationships are not straightforward. Spending on social provision as a general indicator of welfare does not necessarily correspond with the level of pensions, and home ownership rates do not consistently follow one or another welfare indicator. For example, Hungary and Portugal have low welfare spending and a high share of home ownership. However, in Hungary pensions seem remarkably high. In the UK, Belgium and Germany, pensions are relatively low. In the UK and Belgium, this coincides with relatively high home ownership rates, while in Germany, on the other hand,

Table 3.2 Housing finance in 8 European countries

	Belgium	Germany	Finland	Hungary	Netherlands	Portugal	Sweden	UK
LTV recent buyers (2001)	80-85%	70%	75-80%	*	112%	70-80%	90-100%	70%
Duration of loan (2001)	15-20 years	25 years	15-20 years	15-20 years	30 years	25-30 years	30-50 years	20-30 years
Owner-occupiers with a mortgage (2001)	44%	47%	40%	15%	88%	29%	*	61%

*Data not available.

Sources: Elsinga *et al.* (2007); Horsewood and Neuteboom (2006); Housing Statistics (2004)

only 42 percent of the housing stock is owner occupied. In summary, there is no clear-cut relationship between welfare and home ownership. The following section aims at a better understanding of this relationship through an analysis of the perceptions of households in the various countries.

3.5 Housing asset-based welfare in households' perceptions

The paper now turns to the results of the household interview studies. When households speak about their home, its financial significance – which is the main interest of this paper – is hardly ever central to their comments. Clearly, the home has a great variety of meanings. It provides physical security, a roof over one's head, it is a place where people enjoy privacy, can 'be themselves' and where they invite family and friends (Clapham, 2005; Dupuis & Thorns, 1998; Gurney, 1999; Ronald, 2005). This paper focuses on the question of whether home ownership plays a role in households' financial planning, and, more specifically, whether households use or plan to use housing equity for their welfare needs.

The studies showed that, overall, home owning respondents 'used' housing equity in the financial planning in four ways: (1) by lowering their housing expenses on becoming outright owners; (2) by selling their home; (3) by bequeathing housing wealth; and (4) by withdrawing housing equity with a mortgage product.⁶ The first three were fairly common 'uses' of home ownership, whereas mortgage-equity withdrawal was less common.

3.5.1 Reduced housing expenses

The most obvious advantage of home ownership is that mortgage expenses tend to decrease over time and once a mortgage is repaid, housing expenses are low. This advantage of home ownership was mentioned in all countries. Most importantly, respondents link it to old age. German research part-

⁶ Subletting was another strategy that was applied by homeownership respondents. This is left out of the paper because the focus is on 'housing equity' and subletting is not regarded as directly related to that.

ners described home ownership as a 'pension in stone' (Tegeder & Helbrecht, 2007). However, lower housing expenses are also regarded as advantageous in the event of unemployment.

"We did make some indirect provision for our old age before we bought our house. We just made sure that we didn't spend all our money and tried to put some aside. We also invested some smaller amounts in long-term shares. And now we have put everything into home ownership. This means that our house is our provision for our needs in old age, where we can live rent-free. We are already living in the provision for our retirement."
(German homeowners, female, 50 years old)

"I think I have another eight years to go, and then at any rate I will be rid of those expenses for good. If you rent, your expenses never stop... I can see this now in the case of my mother, who only has a pension from my father. She can do more things compared with other members of her family of the same age who rent their home, because they have to find the rent each and every month."
(Dutch homeowner, male, 47 years old)

"My objective is to pay it off as soon as possible because you never know... two incomes are one thing, but one income is a different matter altogether. So, my objective is to pay it off as soon as possible so that I no longer have the expenses and feel more relaxed."
(Portuguese homeowner, female, 53 years old)

In Germany, researchers reported that home owning respondents regarded home ownership as most crucial for old age, particularly because they were highly uncertain about the level of future pensions. Traditionally, living 'rent-free' as a homeowner is seen as a major financial advantage. However, becoming a homeowner did not appear to be the strategy of choice for young German respondents. Decreasing house prices and insecure labour conditions prevented them from investing in home ownership and they preferred to turn to other forms of financial investment for their old age, such as funds, shares or insurance. These were seen as more secure and requiring less long-term responsibility. All German respondents saw unemployment as a real risk. This can also be seen in another financial strategy used by some homeowners – voluntarily increasing the rate of mortgage repayment to reduce mortgage expenses and become outright owners as quickly as possible. To be able to do this, respondents cut back their spending on consumables and leisure. They said they were taking advantage of their current salary, which they considered good, but were unsure whether it would remain so in the future.

Reduced housing expenses in old age were also considered important among the Belgian respondents. The Belgian research partner explained that the ageing population had made pensions less affordable. In the political and public discussion on this issue, home ownership was playing an impor-

tant role. Some political parties in Belgium were arguing that home ownership was an advantage in retirement, boosting both the purchasing power and independence of households. Many Belgian respondents indicated that they shared this view. Some of them explained they had learnt from the difficult situation of their parents living as tenants on a small pension.

The Hungarian researchers described how some families in private rental accommodation were living in unstable and insecure conditions as they approached retirement age. They were faced with high housing expenses and the continual threat of losing their homes as a result of their income difficulties. The pensions system provided them with insufficient income to be able to live in their current homes and they were forced to stay in work much longer than home owning counterparts.

“When you have been paying for your property – in small amounts – but anyway, you build up a kind of ‘nest egg’. One day perhaps, if you urgently need to sell your property, you can cash in the nest egg.”

(Finnish homeowners, female and male, 26 and 29 years old)

Respondent: “I am already in arrears, it’s horrible... It is very hard to save money, sometimes I only cook every second day... I can only save on food... They say the flat is worth 16.8 million.”

Interviewer: That sounds good.

Respondent: “I have already advertised the flat, and would be prepared to sell it for 16 or even 15 million.”

Interviewer: What will you do with the money?

Respondent: “I’ll buy a house of 10 million somewhere outside the city, 30 or 40 km away. And then I’ll start up a business, a small pub, to give my sons a secure future...”

(Hungarian homeowner, female, 38 years old)

“Now I have a safety net if the going gets tough. Then I could sell this house, rent something for next to nothing and get by. Of course, the fact that it has now paid for itself 10 times over is very relevant. I have made a fortune on this house. It’s now worth half a million guilders.”

(Dutch homeowner, female, 42 years old)

“The only way to release money is to move and sell.”

(Swedish homeowner, female, 59 years old)

“We have more security because house prices have gone up so much, if everything went wrong you could sell up and still have some capital, it does make you feel secure.”

(British homeowner, female, 34 years old)

“...we are of the age that we are a little concerned about pensions, and it may be our

trump card. Neither of us has been in jobs for long enough to accrue huge pensions... so it may well be our trump card on the pensions/finances front..."

(British homeowner, female, 45 years old)

3.5.2 Housing equity release through selling

Selling to buy a new house and selling during old age to downsize were also fairly common choices. Only Germany is something of an exception in this. The German respondents perceived buying a house as a once-in-a-lifetime event and did not see selling the house as a usual option. Selling and moving to the rental sector in old age was part of the financial planning of some respondents in the Netherlands and Sweden. Selling was also regarded as a type of emergency solution in all countries.

In Hungary, being able to release equity through the sale of housing was an important part of the safety net of the most financially vulnerable respondents. These were respondents who were faced with unstable labour conditions and lacked a family network for financial support. For them, saving was often impossible and their home was the most important financial resource. Moving house was chosen only as a last resort, and then usually solved only short-term financial problems. These households typically moved to a less expensive house in a location that was often more distant from their social safety net and with fewer job opportunities, so moving house did not always end the financial hardship.

Research partners in Portugal stressed time and again that the home was an investment with which respondents had strong emotional ties. Home ownership was important for financial security, but using the home as a financial resource was something that respondents tried to avoid if possible. Nevertheless, unemployment, expensive health-care and low pensions were also mentioned as realistic contingencies in Portugal, and these might compel households to sell their house. The Portuguese researchers mentioned that it typically takes a long time to actually receive social benefits after application, and that relying on family support and self-management is the only option during this period.

In the UK, respondents generally agreed that home ownership would be important in their old age. Downsizing was the most common option. Respondents elaborated on the change in government policy towards financing care needs. As mentioned above, the British Government now views housing equity as savings, and homeowners with housing equity are not eligible for state aid.

3.5.3 Bequeathing housing wealth

Inheritance appeared to be an issue in the financial planning of households, most obviously to ensure the future well-being of children. Respondents in Finland, Hungary and Portugal were the most outspoken about the importance of bequeathing housing wealth. In Finland, older outright owners described their homes as an essential link between generations. In Hungary, there was a general emphasis on family support, not only on parents helping their children, but also vice versa. Some Hungarian respondents even invested in second houses to increase the value of their bequest. The aim was to provide the children with a safety net and a better start in their lives. In the UK, home owning respondents expected to have to spend part of their housing equity during old age, but stressed that there should be equity left for their children. In Belgium and the Netherlands, respondents used or planned to use inherited capital as a fund to protect them against contingencies.

The affirmation of inheritance could also deliver services to the homeowners themselves. A respondent in Portugal explained that children should support their parents if they were having difficulty affording mortgage expenses during the last years of the mortgage term, otherwise the inheritance could be lost. The prospect of receiving an inheritance encouraged prospective heirs to support the homeowners physically or financially in their old age. In Hungary, this trade-off was often formalised in individually based 'life annuity schemes'. Typically, such contracts were used when there were no family members to take care of the homeowners. These are written contracts in which a beneficiary commits to taking care of the homeowner. In return, the homeowner bequeaths the property to the care-giver. In both Portugal and Hungary, self-management and family-support play key roles in the respondents' safety nets. Here, housing equity is an important financial resource for welfare needs. In Hungary, social benefits are avoided for as long as possible because of the stigma attached to them.

In Portugal, this was the response to a fictive situation of a home owning couple in their midfifties. The two are confronted with unemployment and unable to pay the monthly mortgage expenses. Their house has trebled in value. The respondent was asked what the couple could do. "We also need to see whether they have children, whether the children live with them or not and whether the children can help. They can discuss the problem with their children and suggest that if the children help them for the remaining three years, afterwards they will have a house that is worth much more than they have spent. If not, they [the parents] will sell the house, spend the money and the children will lose their inheritance."

(Portuguese homeowners, male and female, 29 and 30 years old)

"It is different nowadays, so to speak. In the past, it was more like a condition or a pos-

sibility for children if you inherited from your parents, but nowadays they have their lives and their apartments already. So the connection is no longer there as I see it. What we try to do is share the money we have while we are alive. When we sold in Uppsala, they got some money for example. So we take the opportunity now.”

(Swedish homeowner, female, 56 years old)

“There is no security renting... Property as it is now – you make a fortune – but it is security for the children as well... They will always have a roof over their heads and if we pass on then they’ll have the house... It is the future really.”

(British homeowner, male, 38 years old)

3.5.4 Mortgage-equity withdrawal

Mortgage-equity withdrawal is a less common way of accessing housing equity. When it is used, this is most often done to add value to the house, such as for renovation or maintenance work. Only in the Netherlands, Sweden and the UK, countries where house prices have risen considerably, was this a commonly used option. In the Netherlands and Sweden, respondents perceived the opportunity of mortgage-equity withdrawal mainly as a pleasant surprise and they used housing equity as a bonus resource; for example, they bought a caravan, furniture or financed the renovation of their shower and sink into a luxurious bathroom. In the Swedish report, the researcher specified that there was greater opposition to the idea of using housing equity among the elderly, while younger respondents considered it more acceptable. Although not yet used to it, as such, some younger Swedish respondents did perceive the use of housing equity as an appropriate way to add income for retirement, or for if they ever wanted to work part-time. In the Netherlands too, many respondents seemed to have no difficulty with the idea of accessing housing equity through a second mortgage. However, in these countries mortgage-equity withdrawal does not add to the financial security of households because the state already provides a secure safety net.

Similarly, in the UK mortgage-equity withdrawal was regarded as a ‘nice surprise’ to be used for a holiday, or buying a second property, for example. Some British respondents also used the funds to finance a career break, start a family, undertake training or put some money aside ‘for a rainy day’. Only the British respondents understood the concept of using mortgage-equity withdrawal for pension purposes. As described above, homeowners expected to have to use housing equity to pay for care needs. The British researchers reported that financial institutions encouraged people to use mortgage-equity release products and, indeed, the British respondents were those in the sample of countries who saw the widest range of options for accessing equity.

A proportion of the British respondents had no objections in this regard and planned an early retirement or period of part-time working; others were wary

about these mechanisms and said they distrusted banks. The latter group was worried about putting their home at risk. In the UK, as well as in other countries, the respondents were often not in favour of using reverse mortgages, thinking that their housing wealth should go to their children.

“It is not a good scheme if you have children. It is also a dangerous scheme since you become dependent on a bank.”

(Belgian homeowner, male, 38 years old)

“It seemed that the value of the house had risen so much, and at that time we really wanted a new kitchen, a new bathroom, a shed and a fence. We thought that if we used the savings we already had, even if we saved a bit more, it would take too long. We just wanted to get on with it, and the money was available to borrow, so that’s what we did.”

(Dutch homeowner, 49 years old)

“Nothing can affect my housing really, even if I dropped dead the house would be sold, the mortgage paid and there would still be a lump sum at the end of it. If I was incapacitated then I could re-mortgage up to the hilt and use the money for treatment...”

(British homeowner, female, 54 years old)

“It would be nice but it wouldn’t be my... I would rather give them what I had during my life time... if they needed help to buy a car or a house or something then I’d do it at that stage... I’d rather have the money to sort them out now and to give them a reasonable education but it would be nice if something was left of it.”

(British homeowner, female, 40 years old)

3.5.5 Aversion towards releasing housing equity

Home ownership is involved in financial planning in all countries. However, only in some countries did respondents make an explicit link between home ownership and welfare needs resulting from a lack of security in state social provision. This was the case in Hungary, Portugal, Germany, Belgium and the UK (see Table 3.3).

When respondents were asked directly whether they would use their housing equity for welfare needs, they rejected this suggestion. In all countries, respondents raised objections to the use of their homes as a financial resource. The answers revealed that respondents did not think about reducing housing expenses and bequeathing housing wealth, but mainly interpreted ‘using equity’ as selling the house. The Finnish researchers summarised respondents’ perceptions of the house as being a type of ‘sanctuary’.

In Portugal and Hungary, respondents explained their feeling of emotional attachment to their homes, which they wanted to avoid selling. These respondents regarded equity release as a theoretical option and as a very last

Table 3.3 Perceptions of housing equity in financial planning in 8 European countries

	Reduced housing expenses	Selling	Bequeathing housing wealth	Equity release
Financial planning	In all eight countries	In all eight countries	In all eight countries	Netherlands Sweden
Direct link to welfare needs	Belgium Germany Hungary Portugal	Hungary Portugal UK	Hungary Portugal	UK

resort. Finally, in Finland, Hungary, Portugal and the UK, respondents ideally wanted to pass a considerable share of the capital on to their children.

It was possible to discern various reasons for the aversion to accessing equity through flexible mortgages or second mortgages. Respondents in Finland and Sweden were averse to equity withdrawals that involved using additional mortgage products and they distrusted banks or thought that banks would profit unreasonably from these types of loans. In Germany, respondents said that they would feel uncomfortable taking up an extra mortgage as they feared being unable to repay. German home owning respondents worried about unemployment and immobility as a result of home ownership. German respondents also mentioned their aspiration to repay mortgages as soon as possible.

In Belgium, in response to the idea of mortgage-equity withdrawal: “The house is too important.”

(Belgian homeowner, female, 45 years old)

“They [my parents] would help me out financially for a while but it would be the case that I’d have to get a job – they’d help for a couple of months... I wouldn’t want to sell the house... If the worst came to the worst then I could always move back to my parents’ again and let this house out while I looked for another job.”

(British homeowner, female, 35 year old)

“She found the pension supplement scheme a good idea, but if it was up to her, she would not use her dwelling as a financial resource for herself unless her children had secure housing and jobs, and did not need the money from the property.”

(Hungarian private renter, 27 years old) (Summarised by research partner)

In Portugal, again a response to the situation of the fictive home owning couple in their fifties. “...if they sell the house when they are only three years away from paying off the mortgage and then rent another house... little by little they would be killing themselves. They would never see things in the same way again. They would always regret what they did. Losing everything for the sake of three years... having really bad luck... that starts to affect you. It would definitely have a serious impact on them.”

(Portuguese homeowner, male, 28 year old)

“Your own home is a part of your security which you do not play with.”

(Swedish homeowner, male, 62 year old)

3.6 Conclusions

The rate of home ownership, the pensions system, the welfare arrangements and the rate of mortgage take-up all vary considerably between the eight countries studied. Even so, home ownership was found to provide security and played a role in people's financial planning in all countries. It was found that housing asset-based welfare was used mainly in the traditional way: as a means of achieving low housing expenses and building up a nest egg that could be cashed in by selling in the case of contingencies. Furthermore, the extent to which the use of housing equity was linked to welfare needs also varied.

Hungary and Portugal proved to be the clearest examples of housing asset-based welfare within this group of countries. Home ownership levels are relatively high, income security is low and housing assets are part of the family pool of wealth and a crucial last resort. The way to release housing equity for emergencies was by selling. However, this would create more hardship on top of that already being experienced and be a dramatic move. In his theory, Kemeny (1981) limits the use of housing assets to the personal use of homeowners. However, in these two countries it became clear that housing assets have an important wider role as a safety net for children and other inheritors.

In Germany and Belgium, reducing housing expenses in old age was considered important because the future of pension systems was in question and people had little confidence in their own future pensions. In Belgium, there seemed to be a common opinion that home ownership was good for financial security, whereas, in Germany, there appeared to be large differences between the perceptions of the 'insiders' and 'outsiders'. The 'insiders', the homeowners, spoke about both the securities and insecurities of home ownership. For these respondents, the perceived risk of unemployment in combination with a mortgage debt caused uncertainty and only after the mortgage was repaid could home ownership provide financial security. The 'outsiders', the tenants, regarded the risks of home ownership as too large and chose other instruments to take care of their future retirement incomes.

In Finland, Sweden and the Netherlands, housing equity is viewed as a nest egg and as a way to benefit from low housing expenses during old age. In Sweden and the Netherlands, mortgage-equity withdrawal is used to release housing equity, but this equity is considered as a bonus – a gift from the housing market, not for welfare needs. In these countries, pensions are relatively high. In Finland, it appeared that housing equity was not perceived as a safety net for personal use, but as something that should be passed on to the next generation.

Only in the UK was there an explicit link between mortgage-equity release and welfare needs. Here, reverse mortgage schemes were seen as an appropriate way of boosting incomes in old age. In the UK, pensions are low in comparison with the other countries and housing equity thus plays an important

role in filling that gap. As far as the distinction between 'new' and 'traditional' housing asset-based welfare is concerned, then, it is only in the UK that we can speak about 'new' housing asset-based welfare. Here, housing equity is being released for welfare needs through remortgaging and thus without moving house. The other countries differ from the UK in this respect.

Groves *et al.* (2007) cited the examples of Sweden, Germany and the Netherlands specifically as countries that would converge towards the UK. Growing rates of home ownership and a dwindling social housing stock in these countries would be indicators of this. Housing asset-based welfare could be found in household's perceptions in these countries. However, in Sweden and the Netherlands this was not crucial for financial security. In Germany, home ownership is important for financial security for outright owners, but a large group also chooses other financial strategies to sustain their living standards in retirement.

Of course, the future cannot be predicted; in the near future traditional housing asset-based welfare is likely to gain in importance if welfare reforms continue. Three important issues arise from the paper which will become more significant if housing equity takes on a more important role in welfare. First, housing asset-based welfare means that households' welfare levels are interwoven with trends in house prices. The housing market plays a decisive role in the resources available to people. House prices have increased in many European countries over the last decade. The image of home ownership as a sensible investment has become common currency and the fear of house prices falling has faded from people's minds. Currently, however, more unfavourable economic times have arrived and rising house prices can no longer be taken for granted. Decreasing house prices are not risky in themselves. However, an economic downturn, increased welfare needs and declining social provision often occur in combination with decreasing house prices. This new relationship between home ownership and welfare could, therefore, lead to new type of risks for people's well-being and for national economies.

A second issue is inclusiveness. Sherraden (1991), who introduced the concept of asset-based welfare, emphasised the importance of including both the poor and the rich in such policies, to prevent the gap between them from becoming greater. Home ownership is typically not for all European households. Home ownership levels in the countries under study vary between 42 and 92 percent. In general, lower-income groups are excluded from having housing assets. Housing asset-based welfare widens the gap between tenants and homeowners. Research has also shown that it magnifies differences between the generations and between lower and higher-income homeowners (Elsinga, 1995; Groves *et al.*, 2007; Kurz & Blossfeld, 2004; Malpass, 2008; Shlay, 2006).

A third issue concerns the use of mortgage-equity release products. This was more common in countries where house prices had increased the most, meaning that risks with respect to negative equity were limited. Over-

all, households seemed to have a careful approach towards mortgage-equity release products. One of the arguments was that they distrusted banks. These were the perceptions of households in 2005. However, a global financial crisis has taken place since then, which will most probably further reduce trust in mortgage lenders. However, at the same time, financial hardship might have increased the need to withdraw housing equity.

Households are using home ownership in their financial planning and European governments are searching for measures to help them reduce their expenditure on welfare. Encouraging home ownership seems a straightforward solution. However, strengthening the link between home ownership and welfare would have a serious impact on the relationship between welfare and the market, and on the social structure of society. A careful approach to housing asset-based welfare policies is urged, since the three issues mentioned above require further investigation and discussion.

The current economic crisis could serve as the ultimate test for 'housing asset-based welfare': an economic downturn, declining welfare provision, pressure on pension systems and declining house prices – all the relevant conditions seem to be coinciding, making housing equity more crucial than before. However, at the same time households cannot count on gains from the housing market, nor can they count on mortgage lenders. This raises the question of whether 'new' housing asset-based welfare can really function as an adequate safety net for those in need.

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4 Housing assets as a potential solution for financial hardship

Households' mental accounts of housing wealth in three European countries

Janneke Toussaint, Housing, Theory and Society, accepted and forthcoming, Taylor & Francis (www.tandf.co.uk).

Abstract

The global financial crisis means that households in all EU countries must deal with income and asset insecurity. Life cycle theories predict that households will consume their savings in times of financial hardship and in retirement. However, thus far, housing assets have been consumed far less than other assets, though it has been suggested that the increased availability of additional mortgage borrowing will potentially change this. In this paper, household considerations about building and consuming housing equity are explored in Germany, Hungary and the UK. Based on empirical qualitative data, this paper presents an analysis of the potential role of housing assets in these countries now and in the near future.

Keywords

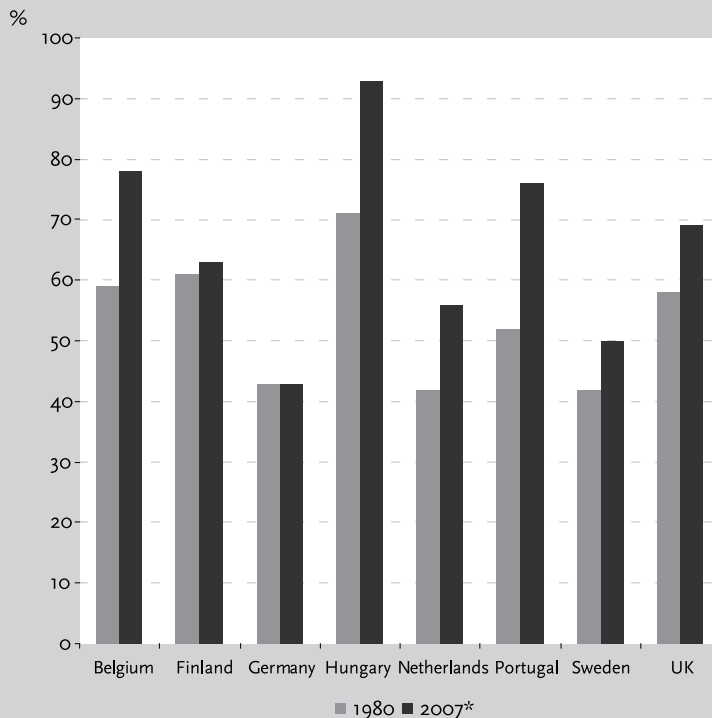
Housing assets, households' financial strategies, mortgage-equity withdrawal, life cycle theory, behavioural economics/finance

4.1 Introduction

In all EU countries households are currently dealing with income and asset insecurity. Unemployment rates have risen and projections for the coming two years are unfavourable (OECD, 2009; IMF, 2009). Stock markets have collapsed, significantly affecting private investments. Pension funds, already under pressure through demographic changes, have generally shrunk. Consequently, sustaining a certain level of income for the future elderly is no longer self-evident. Governments, financial institutions and individual households are struggling to cope.

Housing assets could potentially play a role, especially considering that owner-occupation rates have increased in most European countries over the past decades (Figure 4.1). In many countries, an important factor has been the deregulation of the financial markets (Chiuri & Jappelli, 2003). The European Commission aims to facilitate a 'Single Market' across member states (Stephens, 2000), with deregulation supposed to lower the costs and increase the variety of mortgage products available to consumers. This has partly suc-

Figure 4.1 Owner-occupation rates in 1980 and 2007 (*or around), in 8 European countries



Sources: Horsewood and Neuteboom 2006; Hegedus and Teller 2006; Hypostat 2007

ceeded, with mortgage rates having been reduced and converging, and access to mortgage credit having increased (Scanlon *et al.*, 2008). A growing proportion of households has gradually repaid mortgage debts, also often gaining from house price rises, leading generally to increased financial affluence.

Theories on consumption and savings predict that households will consume their savings and assets in times of financial hardship (Modigliani & Brumberg, 1954; Browning & Crossley, 2001). Although housing assets have become the biggest item in many household portfolios, thus far they appear to be the least liquid, least consumed asset (Levin, 1998; Haffner, 2008; Turner & Yang, 2006). There are reasons to assume that this will change. The mortgage market increasingly enables owner-occupiers to borrow against their dwelling and this has had a significant effect on consumption in various countries (Smith & Searle, 2008; Jarvis, 2008; Boone *et al.*, 2001). It is believed that the increasing ease with which housing assets can be consumed, will allow households to spread consumption over their life course more evenly (London Economics 2005).

However, the potential use of housing assets is limited: not everyone disposes of housing assets or wants to consume the asset, current household financial strategies in the various European countries are unlikely to change radically, financial markets no longer function like in the 'good old days'. This paper will address these issues in more depth, with the central question concerning how households perceive the role of housing assets in times of finan-

cial hardship.

The paper will first present economic theory concerning consumption and saving. This provides a universal starting point for understanding individual's motives for building and consuming housing assets. The research approach will be explained, before, most importantly, an assessment of the role of housing assets in the household strategies of the three European countries in question. The paper thereby contributes to an understanding of established customs and norms. Finally, I discuss issues relevant to the future role of housing assets.

4.2 Saving and consumption theory: the peculiarities of owner-occupation

Life-cycle theories have been quite successful in explaining household saving behaviour. The basic idea is that forward-looking agents distribute their income over their life course, with savings providing financial security for hard times ahead and retirement (Modigliani & Brumberg, 1954). This most essentially implies that in a functioning capital market young people borrow, as their incomes are usually below their average expected lifetime income, the middle-aged save and build up assets, as their current income is higher than average, while finally, the elderly consume their savings because their incomes are generally relatively low. Thus, life-cycle theories expect an inverted U-shaped pattern to apply to savings across age categories and over household life courses (Browning & Crossley, 2001). The basic theory suggests that households are motivated to save by 'foresight' and wish to maintain a certain living standard (see Table 4.1).

However, there are some other motives having a greater or lesser impact on household saving (Keynes 1936 in Browning and Lusardi, 1996; Wärneryd, 1999). First, the 'precautionary motive' is influential, addressing the unpredictability of life and explaining saving and consumption. When the financial future is uncertain, borrowing will decrease and saving increase. Savings are not consumed to maintain the living standard, but only when a financial urgency occurs. Hence, if a precautionary saving motive is dominant, savings are consumed as a last resort.

Economists have been discussing the extent to which social welfare provision and public pensions have an impact on saving (Alessie *et al.*, 1997; Bernheim & Levin, 1989). Overall, findings suggest that in a context of economic growth, generous social welfare provision and public pensions households tend to save less, and vice versa (Kapteyn *et al.*, 2005; Levin, 1995). For instance, if households cannot count on a generous pension, they will save more to be able to maintain their living standard in the future (foresight motive). Another example, if households experience the risk of unemployment

Table 4.1 Overview of saving motives

Motive	Purpose of saving	When to consume
Foresight motive (basic theory)	To maintain living standard	If income drops
Precautionary motive	For unforeseen occurrences	As last resort
Bequest motive	To be able to leave bequest	Not
Profit motive	To maximise gains	-

ment and they cannot count on social benefits, they will save a buffer capital to be able to cope with these kinds of risks (precautionary/foresight motive). In sum, the level of income insecurity could have an impact both on the foresight motive as well as on the precautionary motive.

Another saving motive is the ‘bequest motive’. This motive used to be included in the life cycle theories. It would explain partly why households do not consume all their savings and assets in retirement: they wish to leave a bequest. In the last decades this motive is believed to have become less important. An argument is that in societies with economic growth from one generation to the next, people with heirs will care less about leaving bequests, and might only leave bequests by accident (Hurd, 1990 by Wärneryd, 1999).

Finally, the ‘profit motive’ plays a role in saving behaviour. People would save or invest their money in the most profitable way. For instance, if interest rates fall, people would choose to shift their savings from saving accounts to bonds. In economic theory the assumption is that households search to maximise utility and wish to gain from their savings and assets (Wärneryd, 1999).

The basic life cycle theory can be applied to housing assets. Young people save for a deposit, next they purchase a dwelling. To finance the dwelling they borrow, they take out a mortgage. Gradually they repay the mortgage and build up ‘housing equity’ (the value of the dwelling minus the mortgage debt). Building up housing equity can be considered as saving. In line with the life cycle theories, in times of financial hardship and at old age, households are able to withdraw housing equity: they can consume housing wealth. However, when economists applied these models to housing assets, saving and consumption behaviour appeared more difficult to predict than when they applied it to financial assets (e.g. saving accounts, stocks and bonds) (Levin, 1998; Thaler, 1990). An important explanation is that housing wealth is considered illiquid: people need to sell their dwelling to be able to consume their housing assets.

Yet, nowadays options for housing equity withdrawal are not limited to selling and moving house. The financial markets have added options to cash housing assets while owner-occupiers can continue to live in their dwellings. These mortgage borrowing practices would make housing assets more liquid. Owner-occupiers can refinance their property and take out additional mortgage debt; second mortgages can be taken out to finance consumption; reverse mortgage schemes are introduced especially for elderly to be able to withdraw housing equity. From the literature it appears that indeed housing equity withdrawal through additional borrowing has become more easy and more common (Parkinson & Searle, 2009; Scanlon et al., 2008). In times of financial hardship, households are more likely to withdraw housing equity by additional mortgage borrowing (Schwartz et al., 2008). It needs mentioning though that these practices have been extensively described in the UK, Aus-

tralia and the United States, but much less is known about other countries.

Different than assumed by the basic life cycle theory, older people do not seem tended to consume housing equity. Mobility rates among the elderly are generally low, and so far reverse mortgage products have not been very successful (Reifner *et al.*, 2009; Turner & Yang, 2006; Venti & Wise, 2001). Levin (1998) showed that retired Americans or those close to retirement mainly consume income rather than assets. Liquid assets had the greatest impact on consumption, for example those in savings accounts, stocks and bonds, while housing assets clearly had the least impact (also Fisher *et al.*, 2007; Venti & Wise, 2000; Chui & Jappelli, 2002; Turner and Yang 2006). However, when Levin divided the sample into two groups – those with substantial liquid assets and those without – interestingly, he found that the latter group were inclined to use their illiquid assets, including housing, when their liquid assets were exhausted. This suggests that when there are no other financial solutions, housing assets will be consumed. Housing equity appears to be used as a precautionary fund (precautionary motive).

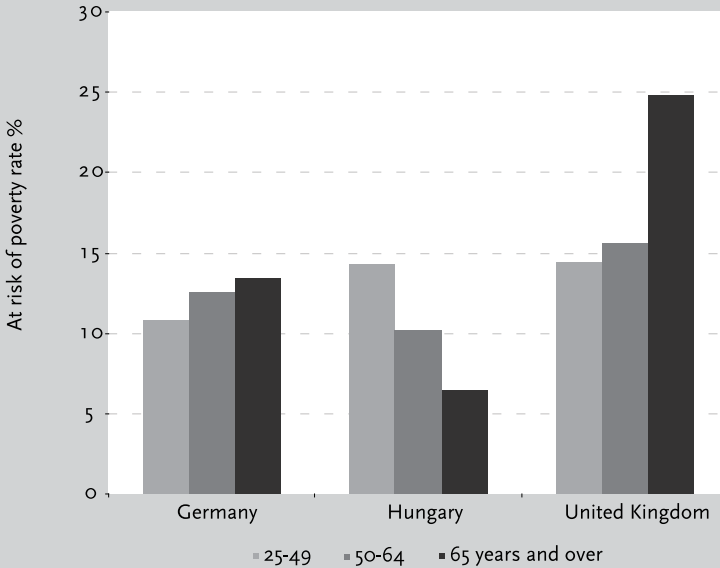
Various reasons have been offered to explain why households tend not to consume their housing assets as is predicted by the basic life cycle theory (foresight motive). The most important are: the bequest motive (a wish to pass on wealth to heirs) (Haffner, 2008), the precautionary motive (reserves might be required in the future) (Fisher *et al.*, 2007; Venti & Wise, 2000) and the fact that housing assets are still regarded as illiquid (they cannot be accessed as easily as money in an unrestricted bank account) (Thaler, 1990; Wärneryd, 1999). To improve understanding of households' behaviour, Thaler (1990) proposed to use the concept of 'mental accounts'. Different sorts of savings and assets can be put in different mental accounts. Obviously, housing assets are perceived differently by households than financial assets.

The literature clearly shows that housing assets are different, but it fails to explain why households build 'housing' assets, what is the relative importance of the foresight motive; and provides limited insight into the circumstances under which people would consider consuming these assets. Additionally, most research focuses on household behaviour in one country, with little research on differences between countries or the impact of institutional factors (Fahey 2004; Börsch-Supan 2003). In this paper a qualitative research methodology is adopted. Focusing on household perceptions, the paper aims to provide an understanding of the building and consuming of housing equity in different countries, the different mental accounts of housing wealth.

4.3 Research approach

The three countries investigated in this study were chosen because they differ with respect to their levels of income insecurity and the opportunities

Figure 4.2 At risk of poverty rate by age-group (2005), in Germany, Hungary and the UK



Source: Eurostat

of mortgage borrowing. The basic life cycle theory (foresight motive) is taken as a universal starting point for the analysis. It is assumed that higher income insecurity leads owner-occupiers to consider cashing in and consuming their housing assets in times of financial need. Further, it is expected that the greater the market availability of mortgage products, the more likely that mortgage borrowing will be used to cash in housing equity to maintain the living standard.

The at risk of poverty rate for different age-groups is used as an indicator for the level of income insecurity. The at risk of poverty rate shows the share of persons with an equivalised disposable income below the risk of poverty threshold, which is set at 60 percent of the national median income (Eurostat). Social welfare provision and public pensions are taken into account in this measure. Overall, the UK shows a relatively high rate of poverty risk for different age-groups (Figure 4.2). People in different phases of their life cycle have different propensities to face a low income situation. Especially the British retirees appear at risk of poverty. Conversely, in Hungary, the younger people appear more at risk than older¹. In Germany differences between age-groups are less pronounced.

To get insight in the size of the mortgage markets in the three countries, Table 4.2 shows the total residential mortgage debt as a percentage of the Gross Domestic Product (GDP - this is a measure of economic activity and allows comparison between economies of different sizes). In the UK mortgage

¹ It needs to be mentioned that the at risk of poverty rate in Hungary is based on official income statistics. These are however not very accurate due to a large black economy.

Table 4.2 Indicators of access to mortgage credit in Germany, Hungary and the UK

	Residential mortgage debt to GDP ratio % (2005) (Hypostat 2008)	Mortgage product availability index (London Economics 2005)
Germany	51.9	0.82
Hungary	10.4	0.77
UK	78.4	1.00

lending is most extensive, whereas, in Hungary the residential mortgage debt remained rather small as a proportion of GDP. The mortgage product availability index shows that the British mortgage market provides the greatest variety of products, Hungary the least (Table 4.2), while the German mortgage market also provides a limited range of mortgage products. Roughly, based on the mortgage indicators the expectation arises that households in the UK mostly include housing assets in their financial strategies according to the basic life cycle theory and least in Hungary.

The empirical data comes from the EU OSIS project (Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance and social security) (Doling & Ford, 2007). The OSIS project was unique, as it used qualitative studies to build up an understanding of the behaviour of households in different national contexts. The general aim of the project was to identify the level, nature and source of security and insecurity in owner-occupation in European countries. Partners from various European countries collaborated to deliver country-based reports which provided a strong basis for an international comparison (Elsinga *et al.*, 2007).

These reports described institutional contexts concerning welfare provision, housing markets, housing policies and mortgage markets and they reported the results of in-depth semi-structured interviews with approximately 240 households. Thirty interviews – with twenty owner-occupiers and 10 tenants – were conducted in each country over spring and summer, 2005. Purposive sampling procedures were utilised to recruit a similar range of respondents in various countries. Target quotas were set for tenure, age, employment status, household structure and gender.

The outcomes were analysed systematically to provide answers to similar research questions and therefore resulted in similarly structured research reports, while leaving room for country-specific issues (Quilgars *et al.*, 2009). The research data in this paper is based on a small sample of households from the three countries selected. The aim is not to generalise the findings to national levels, but to gain an understanding of the meaning of housing assets in the various country contexts and thereby contribute to the theoretical analysis of this issue.

This paper addresses the following research questions:

1. Why do households build housing equity, does the foresight motive play a role?
2. To what extent do households consider consumption of their housing equity in times of financial need, and how would they cash in their housing equity?
3. What are the household views on the use of (additional) mortgage borrowing in times of financial need?

The starting point of the analysis will be the behaviour of individual households, with basic life cycle theory providing uniform expectations. To what extent does the foresight motive influence saving and consumption of housing assets, and to what extent do other saving motives matter? Variation between the countries will then be explained in terms of the formal institutional settings and arrangements as well as informal institutions. The term 'informal institutions' refers to norms, customs, mores and traditions. These are known to change slowly and therefore have an impact on societal developments in the long term (Williamson, 2000). The focus of this paper is owner-occupied properties, and not the otherwise interesting case of investment in second properties.

The following empirical sections provide separate analyses of each country, each introduced with a brief description of the existing housing policies and functioning of the mortgage markets. These institutional settings have an important direct impact on the building and consumption of housing equity (Beverly & Sherraden, 1999). Following this description, the perceptions of the householders will be presented.

4.4 Germany – strong private rental sector and owner-occupied dwelling as a 'pension in stone'

The German government has encouraged owner-occupation. The most important instrument was the *Eigenheimzulage*, a government grant allocated directly to first-time buyers, through which the government paid owner-occupiers one percent of construction costs of the dwelling and another 800 euros for each child per year for an eight-year period. The scheme was abolished in 2006.

Another important instrument still available is the *Bausparkassen*. This is a form of contract saving which is subsidised by the German government and meant to facilitate saving for owner-occupation. The savings, required for the purchase a dwelling amount to a deposit of approximately 25 percent of the value of the dwelling (Scanlon & Whitehead, 2004).

Germany also has a large, well-established private rental sector. Investment in private rental housing is attractive because all relevant costs, including depreciation, can be deducted from rental income. Generally speaking, private landlords receive greater subsidies due to tax-deductible depreciation than owner-occupiers received from the *Eigenheimzulage* (Haffner *et al.*, 2009). The German mortgage market is known to be restrictive. Reverse mortgage schemes are available for the elderly, however, so far they do not appear very popular (Tegeder & Helbrecht, 2007).

The German interviewees...

... think that owner-occupation provides the best living conditions for a family and it is the goal of most Germans. The interviewees explained that owner-occupiers are free to adjust and renovate their dwellings as they like, and are independent of a landlord. Furthermore, despite unfavourable house price developments in some regions of Germany, housing is regarded as a safe and stable investment. Owner-occupation is considered an economically favourable option in the long term as housing expenses decrease.

“It’s a good feeling, because I have noticed that the amount I pay to the bank is falling every month. I didn’t think about that before we owned our home ... We’ve repaid a lot already, which means more freedom, because I have to pay less. Freedom to spend the money on other things.”

(Owner-occupier, 41 years old)

However, if jobs, income, family and partnerships remain unsettled, German interviewees tend to prefer to rent. Being a tenant is regarded as offering better financial flexibility and the ability to adapt to changing living conditions without unexpected maintenance costs. In Germany, the private rental sector has a good reputation and it is perceived as providing secure, affordable and flexible housing.

Purchasing a dwelling in which to live is seen as a once-in-a-lifetime event. German interviewees typically looked for the perfect family dwelling or built this perfect dwelling themselves, intending to spend their entire lives there. This typical German socio-cultural pattern was shaped by the *Eigenheimzulage* (Tegeeder & Helbrecht, 2007).

The interviews illustrated that households want to repay mortgages quickly, with homeowners commonly cutting back other consumption to become outright owners as quickly as possible. This was related to the insecurity of the labour market, the reasoning being that the more that was repaid, the lower the housing expenses in the case of unemployment and thus the lower the risk. Additionally, owner-occupied dwellings are perceived as a ‘pension in stone’: outright owners live rent-free and this is seen as an important financial advantage in old age. Interviewees explained that especially now, with the expectations that future pensions will not be sufficient to provide comparable living standards to those possible while employed, reduced housing expenses are an important financial factor encouraging people to become owner-occupiers.

Generally, Germans were highly aware that welfare-restructuring meant that they had to take more responsibility for their financial well-being. Private financial assets or various kinds of insurance are regarded as essential. Unlike savings and shares, housing assets are not taken into account in the calculation of unemployment or other benefits. Interviewees stated that this

made investment in housing assets attractive. Nevertheless, some younger tenants indicated that they had considered other forms of financial investment such as funds, shares and insurance, because these required less long-term responsibility and were therefore more compatible with the changing, unconventional labour conditions.

In Germany, interviewees regarded investment in a rental property as being more suitable to offset financial hardship than owner-occupation. As explained above, investing in private rental housing is attractive due to tax arrangements. It is not unusual for landlords themselves to occupy rental housing. Below a quote of a German tenant, who invested her money in property to rent out – she is a landlord. A bank contacted her to speak about investments in other financial products for her retirement:

“Recently, I had another letter from the bank saying that I should come and talk to them about financial provision for my old age. But I think property is more secure than shares or things like that, because you never know what will happen. That’s the point. I don’t have any confidence in future developments, but property is always safe.”

Tenant and landlord, 36 years old)

Owner-occupiers appeared averse to consuming housing equity, if it concerns the dwelling they live in. If they think about housing equity withdrawal, they think about selling; and they could only imagine moving out if no other financial alternatives remained. Some remarked that they would rather sublet part of their dwelling. Housing equity withdrawal through additional mortgage borrowing was not regarded as attractive, due to concerns about repayments. Nevertheless, people mentioned that they would rather consume their housing equity than rely on their children (Tegeger & Helbrecht, 2007).

“We put our heart and soul into our house, we put in a great deal of energy and effort, because we did a lot of work ourselves... We did everything ourselves. And that’s why we want to hold on tightly to our home and would do a lot, almost anything to keep it. More than you would do for a rented flat. It is a completely different emotional relationship. It’s much stronger.”

(Owner-occupier, 50 years old)

4.5 Hungary – Outright owners, extended families and bequest motives

Hungary has a tradition of owner-occupation. In the 1980s, 65 percent of the housing stock was already owner-occupied (Ball 2009). During the transition in the 1990s, the Hungarian government provided radical incentives to further increase this level, selling public rental housing stock for on average 10

percent of the market value. The dwellings had been poorly maintained during the communist regime and renovations and maintenance would have cost the State a fortune. In addition, rents at the time only covered 30-45 percent of costs. Only five percent of the housing stock remained rental housing, mostly consisting of flats occupied by worse-off households without financial resources or family support.

In addition to the 'give-away policy', a variety of incentives were introduced, some of which were abolished soon after their introduction. Owner-occupation was strongly encouraged through tax policies, guarantees and subsidies, while subsidised contract saving schemes for future owner-occupiers were also introduced.

At the time that the give-away policies were introduced in the 1990s, households usually used savings and family resources to purchase dwellings, the mortgage market was unimportant. In 2000, due to the introduction of subsidised interest rates, Hungarian households did start to make use of the mortgage market. However, in 2004, subsidies were abolished, which discouraged further borrowing and seriously depressed the housing market. Hungarians are now able to withdraw housing equity through mortgage products offered by private banks; however, these are generally only available to those living in urban areas, where house price developments have been more favourable compared to rural regions (Hegedüs & Teller, 2007).

The Hungarian interviewees...

... regarded owner-occupation as a necessary basis for the financial well-being of young Hungarians. The rental sector has a bad reputation and is considered to be highly insecure. Furthermore, owner-occupation is attractive because housing assets are an important part of the asset portfolio of the extended family. The purchase of a dwelling is not a decision of the buyers alone, but a collective strategy of the extended family in both a financial and practical sense. Some interviewees bought former rental housing in the 1990s, which at the time seemed a self-evident move. In Hungary, the rental sector does not provide an acceptable alternative to owner-occupation. The private rental market provides some flexibility but it is very expensive. Furthermore, landlords do not always respect the privacy of occupants, rents can rise unexpectedly and tenants can easily be evicted. Social housing is thought to be more secure but only caters to the least well off. As a result, owner-occupation is the preferred tenure, providing freedom and independence, and relative security concerning monthly housing expenses.

Nevertheless, many owner-occupier interviewees were concerned about their financial situation. In Hungary, purchasing a dwelling is a risky business. It is often unclear how much a dwelling is worth and how much investment is needed to maintain it. Families also aim to make optimal use of housing schemes and subsidy programmes, but these are described as unreli-

able, with a good decision only becoming evident years later.

In the case of unemployment or illness, interviewees turn to their families or to their own private resources, not relying on social welfare provisions, which carry a social stigma. If families are unable to financially manage the situation, the step to government's support appears difficult.

"I heard from a friend that the family welfare service has this debt management system... so we went. It was at the beginning of summer, and there were a lot of gypsies sitting outside. We continued on as if we weren't going there at all. [...] when you see all these people, you know that being poor is something to be ashamed of... But in the end I was in such difficulties that I had to go."

(Owner-occupier, 38 years old)

In Hungary, housing assets are highly relevant to the financial strategies of extended families. However, they are only used as a last resort. If relatives cannot provide support, housing equity withdrawal through selling and buying a cheaper dwelling is most common, and it is a realistic option in the case of unemployment, illness, or if debts must be paid. However, it appears to be an extremely difficult step.

Some interviewees faced rather deep financial problems, with mortgage arrears and other debts. Withdrawing housing equity through selling could potentially help them out of trouble; however, thus far the interviewees had not cashed in and consumed these funds. Their emotional attachment to the dwelling stopped them from doing this. As in Germany, interviewees mentioned that second properties were seen as better buffer assets than owner-occupied dwellings.

People who did sell in times of financial hardship did not always appear to be better off as a result. They moved to areas where house prices were lower, but these often provided less job opportunities. They were sometimes too far away from the extended family to gain support through the family network and often had higher travel expenses.

"I have already advertised my flat. [...] I'll buy a house somewhere outside the city, 30 or 40 kilometres away. And then I'll start up a business, a small pub, to give my sons a secure future. [...] I want to move to a place where I can take the train with my daughters and my eldest son will get a driving license and we'll buy a cheap car for him, and then he can take his brother to town."

(Owner-occupier, 38 years old)

Housing equity withdrawal through additional mortgage borrowing was rarely seen as an option. The Hungarian interviewees felt a moral obligation to pass their housing wealth to their children. Inheritance and intergenerational transfers are crucial for the younger generation to gain a foothold on the

housing ladder and for further upward financial mobility. If parents have financial difficulties in retirement, the children normally assist them. Consequently, selling and buying a cheaper dwelling is not always necessary and children inherit the full value of housing wealth.

“Unless we are really impoverished, we do not touch the wealth accumulated in housing. It is obvious that first I will ask my children to help me out, this way they will be better off as well. There are also other possibilities: for the whole family it would be the best if our kids would take a student loan so that we can pay the costs of one of the mortgages and we would not have to sell the dwelling.”

(Owner-occupier, 52 years old)

Interestingly, the potential bequest of housing wealth also provides services for owner-occupiers without children. A formal contract, called a ‘life annuity scheme’, can be drawn up, whereby owner-occupiers agree to pass on their housing wealth to beneficiaries. In return, the beneficiaries commit themselves to taking care of the owner-occupier until the latter’s death. In many cases this was the way in which interviewees had acquired a dwelling. A private tenant helped her children to acquire their own future flats. In the time of privatisation she purchased the rental flat of a neighbouring elderly woman from the municipality for her daughter. In return, together with her daughter she supports the neighbour, by giving help in kind and financial help. If the neighbour would pass away, her daughter can move in this dwelling (Hegedüs & Teller, 2007):

“Even the lady in the neighbouring flat thought it would be best if we bought her home from the municipality for my daughter at a low price, which would also allow us to help her financially... This means that all the kids have their own independent private homes.”

(Private tenant, 47 years old)

4.6 The United Kingdom – housing-asset based strategies, optimism and the ‘learning curve’

In the UK, post-war governments have strongly encouraged owner-occupation in political discourse and through various schemes and tax relief provisions. The various incentives were part of a much broader plan to get people saving and building assets. Schemes – the most well known being the Right-To-Buy – were developed to broaden access to owner-occupation, especially for lower income households.

In the 1980s, the mortgage market was deregulated and this played an important role in providing access to owner-occupation (Stephens 2007). Mortgage tax relief was gradually abolished between 1974 and 2000; howev-

er, the encouragement of owner-occupation did not diminish (Haffner *et al.*, 2009). In addition to incentives for owner-occupation there were also those introduced to boost investment in the private rental sector (Buy-To-Let schemes).

The security of tenure for private tenants is limited. New tenants are protected against rent increases and have security against evictions for the first six months, after which tenancies continue on a month-by-month basis. Currently, due to decreased affordability of owner-occupation, young Britons more often use the private rental sector and do so for longer periods. Social housing is only provided to the most vulnerable households, and those involved cannot be evicted and are also protected against rental prices by housing benefits.

The owner-occupation rate has grown and housing assets have increasingly become part of British welfare policies. These assets are mostly seen as a potential financial resource for care in old age and to supplement retirement incomes. People are encouraged to use mortgage products, such as reverse mortgages, to improve their financial situation in retirement and access to mortgage credit has been relatively easy (Quilgars & Jones, 2007).

The British interviewees...

... preferred to buy, because one day the property would be theirs and they expected that it would be worth much more than they paid. Additionally, the decision to purchase a dwelling is often made in the time that households start a family, get children. Building up housing wealth for them appears highly relevant.

“There is no security renting... property as it is now – you make a fortune – but it is security for the children as well... they will always have a roof over their heads and if we pass on then they’ll have the house... it is the future really.”

(Owner-occupier, 38 years old)

The rental sector in the UK is regarded as a safety net for vulnerable households, and people preferably use it for a short period only. Private renting is found to be most insecure; however, it is valued because it provides flexibility if one’s employment situation or relationship are not settled. It also provides temporary accommodation after the involuntary sale of a previous dwelling, for example after a relationship breakdown or unemployment. The social housing sector provides secure housing for people who cannot afford to become owner-occupiers. However, there is a social stigma attached and such housing is not associated with the freedom to move.

In general, owner-occupier interviewees appeared optimistic about their financial situation. They recognised risks but believed that house prices would increase further, that interest rates would remain stable and that there

would be sufficient future job opportunities. The British interviewees relied on their ability to cope with risks as they arose. Owner-occupying interviewees regarded housing assets as part of a financial strategy. If the financial needs became too great, they could sell and buy a cheaper dwelling.

“We have more security because house prices have gone up so much, if everything went wrong you could sell up and still have some capital, it does make you feel secure.”

(Owner-occupier, 34 years old)

Housing equity withdrawal through additional mortgage borrowing as a solution in times of financial hardship was not spontaneously mentioned, and if asked directly, people seemed averse to it. However, the interviewees quoted below also refer to the different approaches of each generation.

Female: “Loans aren’t things we really like, I mean having a mortgage is bad enough, because you are owing money to people in effect.”

Male: “Usually, if we cannot afford it, we don’t get it...”

Female: “We have a credit card and every time a bill comes in, we pay it straight away.”

Male: “I couldn’t live like kids do these days, they don’t seem to have any financial, they just pay, pay, pay...”

Female: “I think I’d die if I had a red demand. I think if I die tomorrow, at least I won’t owe much.”

(Male 54 years old and female 55 years old)

Nevertheless, housing equity withdrawal through additional mortgage borrowing was well known and used by interviewees for a wide variety of purposes, apparently more by younger people than by older. It was mostly used for home improvement but also to help children take their first step on the housing ladder, to finance a career break, take time off to start a family, finance education, become a landlord, finance a holiday, or put some money aside for a rainy day. Interviewees who had used additional mortgage borrowing once, often did so again and spoke of a learning curve. Their experience was that it was easy to get access to money and they were even encouraged by the banks.

However, they also aimed to build housing equity for retirement and to pass it on to their children. Most interviewees showed a general awareness that they would need housing wealth for retirement, without a concrete plan.

“... we are of the age that we are little concerned about pensions, and it may be our trump card. Neither of us has been in jobs long enough to accrue huge pensions... so it may well be our trump card on the pensions, finances front...”

(Owner-occupier, 45 years old)

Table 4.3 Households mental accounts of housing wealth in Germany, Hungary and the UK

Households mental accounts of housing wealth			
	Germany	Hungary	UK
Why build housing equity?	Acquiring housing services Reducing housing expenses (foresight)	Acquiring housing services Making optimal use of subsidies (profit) Part of financial strategy of extended family (no reliance on social welfare provision) (foresight/precautionary/bequest)	One day they own outright (foresight) Gain from house price increase (profit) Building up security for the children (bequest) Acquiring housing services
Consume in times of financial need?	Averse Owner-occupied dwelling is different than investment property (rental property) No, sublet instead If no other way out: sell	Averse Instead, children help parents and vice versa (bequest) Realistic: sell (precautionary) Owner-occupied dwelling is different than investment property (rental property) No, emotional attachment Instead, life annuity scheme - leave housing assets in return for support (bequest)	Yes, possibility to sell (foresight) No, need housing wealth in retirement (precautionary) Yes, plan early retirement: sell (foresight) Yes, but something should be left for children (bequest)
Additional mortgage borrowing in times of financial need?	Averse No, worries about repayment Yes, better additional mortgage borrowing than rely on children	Averse No, housing equity is crucial for financial wellbeing of children (bequest)	Averse No, additional mortgage borrowing for other purposes No, mortgage-equity withdrawal schemes no good value for money No, distrust financial institutions

Some did have more concrete plans to finance an early retirement using housing equity. The method would again involve selling and buying a cheaper dwelling. In general, the use of mortgage-equity withdrawal schemes in old age was approached with scepticism. People were not sure if the schemes (reverse mortgage products) provided good value for money or whether financial institutions could be trusted (Quilgars & Jones, 2007).

4.7 Discussion

Next, with the answers to the research questions, I attempt to sketch households' mental accounts of housing wealth (see Table 4.3). The first question considered the motives behind building housing equity. Choosing to purchase a dwelling to occupy appeared in the first place a decision about acquiring an affordable, independent, decent and socially acceptable 'home'. The extent to which the rental sector is an acceptable alternative to owner-occupation has an impact on who builds housing equity and in what circumstances. In Hungary and the UK people were less inclined to rent and given greater encouragement to engage in owner-occupation than in Germany. Hence, in first place the choice to 'build housing equity' is a choice to obtain housing services. This is a consumption motive instead of a savings motive.

Nonetheless, buying a dwelling was additionally seen as a way of saving, as

an investment. In the UK and in Germany interviewees mentioned that the purchase of a dwelling could provide a profit (profit motive) and reduce housing expenses in the long term (foresight motive). People expressed a desire to own the house 'fully', referring to the fact that 'one day the house would be theirs'. The basic life cycle theories assume that households foresee they can consume their assets in times of financial need. Importantly, when it comes to housing assets, the interviews showed that the 'foresight motive' applies to the consumption of housing services without having to pay for them. Further, bequest motives play a role already in the decision to purchase in Hungary and the UK.

Income insecurity appeared to have an effect on the importance of building housing equity. Owner-occupiers recognise the investment value of their properties in relation to insecurity concerning unemployment and future pensions. The Hungarian interviewees made a strategy with the extended family. By supporting each other in various ways they would prevent as long as possible a sale of their properties, yet they were regarded as important assets. In the UK, interviewees seemed to find it less difficult than the Hungarians to imagine moving to a cheaper dwelling. The British interviewees expect that especially in retirement they might need their housing wealth. These expectations are in line with the welfare policies in the UK and Hungary. Additionally, the at risk of poverty rate among the elderly appeared relatively high in the UK in comparison with the other countries (Figure 4.2).

Germany was the only country where households made an actual choice whether they wished to invest their money in housing assets or other assets in response to the financial insecurity. It is a country with a low rate of owner-occupation. Young Germans reacted on increased income insecurity on the labour market by withholding from investing in owner-occupation and choosing other forms of investment to secure their financial future.

The second research question was to what extent households consider using housing equity in times of financial need, and in what way. The interviews confirm earlier findings, they show that housing equity would mostly be consumed as a last resort (also Chiuri & Jappelli, 2002; Fisher *et al.*, 2007; Levin, 1998). From this study it appears that an important reason is emotional attachment to the property. When interviewees think about housing equity withdrawal during periods of financial hardship, they usually think about selling. Even in the UK, where people are more accustomed to additional mortgage borrowing, interviewees' strategy appeared to be selling. In the other two countries interviewees made a comparison with true 'investment properties'. If it was a matter of a second property, consuming the proceeds after selling would be less of a problem, but the fact that it is the 'home' makes a difference. People wish to hang on to their 'homes' when they are being distressed financially. Furthermore, in due course owner-occupiers have lower housing expenses than tenants. This means that they are already in a

relatively financially prosperous situation ('pension in stone') (Turner & Yang, 2006). In addition, in Germany the possibility of subletting part of the dwelling was seen as an option. In Hungary the potential future bequest of housing assets appeared to deliver owner-occupiers financial support or support in-kind from their heirs (bequest motive).

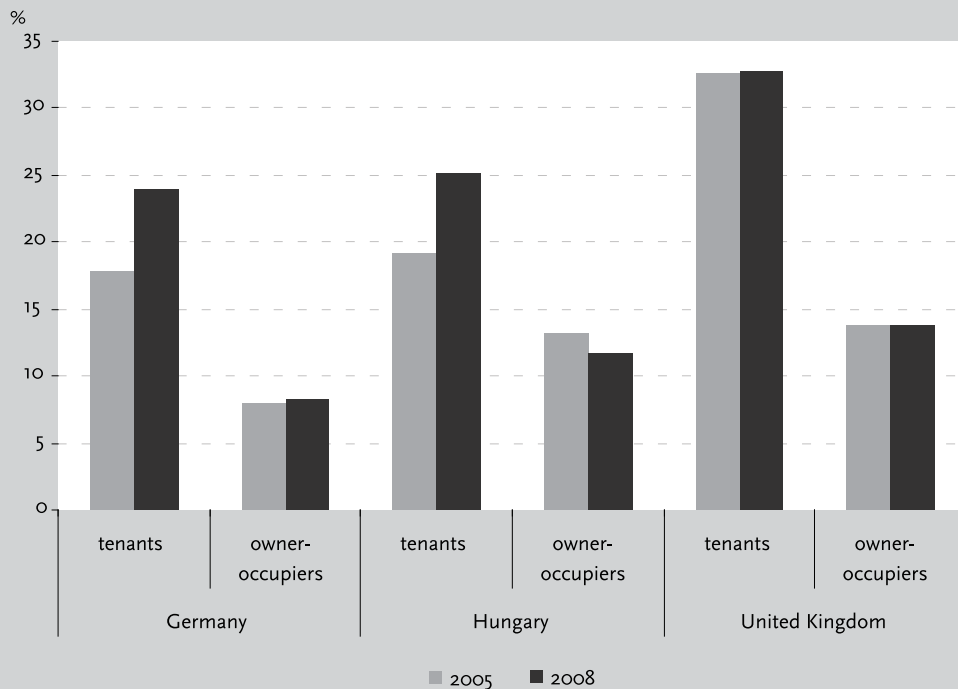
British interviewees seemed to perceive their dwelling more as an investment good that can be cashed in times of financial need, than interviewees in the other two countries. They spontaneously came up with the strategy of moving to a cheaper dwelling in retirement. One had a plan (foresight) to withdraw housing equity in this way to be able to retire early. The initial expectation based on the life cycle theory was that greater opportunities on the mortgage market would make housing assets more part of financial strategies in Britain. This cannot be confirmed here. Mobility, moving house, seems more important. In comparison: in Germany the custom was buying only once in a life time. This could be part of the explanation why consumption of housing equity is less part of households' financial strategies in Germany than it was in the UK.

Finally, the third research question concerned household views on the use of additional mortgage borrowing in times of financial need. Despite the availability of options to do so in all three countries, under conditions of financial hardship housing assets are usually regarded as illiquid. In Hungary interviewees stressed that the inheritance would be important for financial wellbeing of their children. This perception can perhaps be explained by the higher at risk of poverty rate for the young age-group in Hungary (see Figure 4.2).

The Germans seem more than the British interviewees hold on to the norm that a mortgage needs to be repaid as soon as possible, they aim at saving housing equity. This difference also seems reflected in the differences in approach between the German and British government. The German government has provided incentives to save for a deposit (*Bausparkassen*); whereas the British government has stimulated the mortgage market, and enabled more households to borrow by mortgage tax relief and Right-to-Buy schemes.

Only the British interviewees appeared to some extent accustomed to consuming their housing assets by using the various options on the mortgage market. However, they mostly seemed to use it for more frivolous expenditures. Increasing house prices and secure incomes in the UK made additional mortgage borrowing attractive.² In contrast, in the context of financial hardship the interviewees intended to adjust consumption to their lower income while maintaining housing assets as long as possible. Hence, even if mort-

² The relationship between house price increases, additional mortgage borrowing and hence additional consumption has been shown for various countries, among which the UK (Catte *et al.*, 2004).

Figure 4.3 At risk of poverty rate by tenure status in Germany, Hungary and the UK

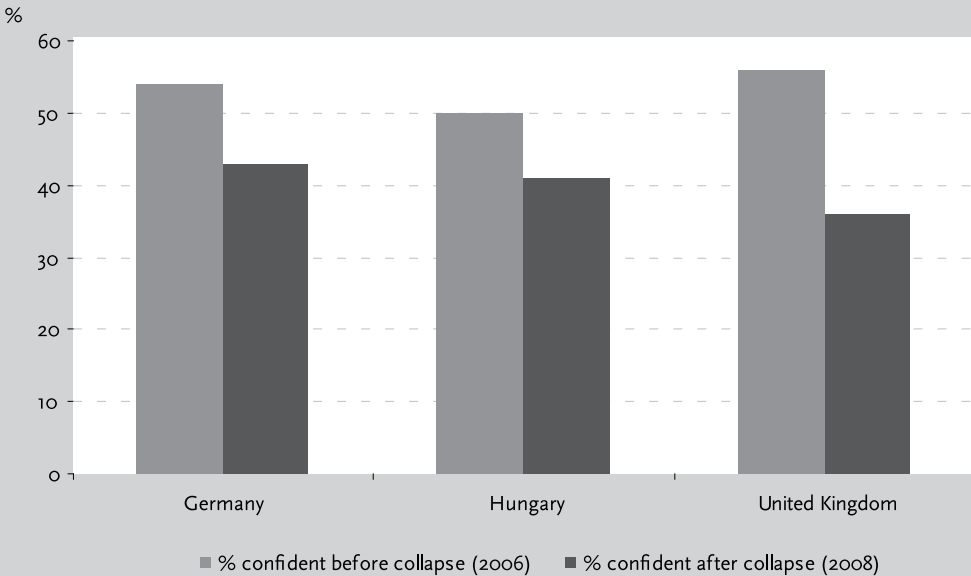
Source: Eurostat

gage product availability is high, in times of financial hardship households seem careful using additional borrowing. This supports the adage that ‘economic hardship promotes conservatism and prosperity fosters extravagance’ (Browning & Lusardi, 1996). Additionally, in 2005, people were already stating their distrust of special mortgage schemes and financial institutions.

4.8 Expectations for the near future

The interviews took place in 2005 – the ‘good old days’. Since then the times have changed, with the question now being whether housing assets can alleviate financial hardship rather than merely facilitate additional spending. Householders in the EU expect higher unemployment rates and greater insecurity in relation to pensions. Economic growth is no longer self-evident. Meanwhile, housing values tend to stagnate or even decrease. If all else remains constant it can be assumed that housing assets will become more important to household financial security.

Figure 4.3 shows that owner-occupiers are less at risk of poverty than tenants in the three countries. And between 2005 and 2008 the potential financial need of owner-occupiers has hardly increased. Hence, owner-occupiers are less likely to be faced with low incomes than tenants, and will feel even more secure once they have built substantial housing equity relative to the value of the dwelling. Owner-occupiers profit from relatively low housing expenses, particularly in old age, and housing equity is especially meaningful

Figure 4.4 Confidence in financial institutions in Germany, Hungary and the UK

Source: Gallup, 2009

if the household cannot rely on welfare provisions. If, despite lower risks and lower housing expenses, some owner-occupiers cannot manage, it is most likely that they will consider to sublet or, in countries where family networks play a role, accept help from their children.

People will only consume their housing equity as a last resort. The interviews suggest that selling is the most obvious way to achieve this. However, the biggest obstacle to this is that people have to leave their 'homes'. They also have to find a buyer and alternative housing, and if a substantial part of the population had to sell at one time, it would have a substantial negative effect on the housing market. At present, housing markets already appear to be stagnating, and as a result it could become difficult for owner-occupiers to sell.

In these circumstances, the only emergency option left would be (additional) mortgage borrowing. People expressed aversion to and distrust of mortgage-equity withdrawal products in the interviews in 2005. Figure 4.4 shows that confidence in financial institutions has declined between 2006 and 2008. Nevertheless, in the UK additional mortgage borrowing is a well-known practice, and some Germans stated that they would rather use a mortgage than become dependent on their children. In Hungary we saw that for many the current emergency solution – cash through sale – did not provide a proper solution over time, so perhaps mortgage borrowing would be a more viable option.

This study has shown that in all three countries an owner-occupied dwelling is principally a 'home' which provides housing services that become increasingly affordable over time. With booming house prices and high levels of income security, housing equity is more likely to be consumed; however, in hard times people attempt to protect their housing equity. We have seen that, in relation to housing equity, the history, welfare system and housing market,

and the norms and customs of a country are important factors.

The expected Single Market and convergence of mortgage markets after the introduction of the euro and the deregulation of financial institutions at the EU level has not come as soon as expected and there are doubts that it will be realisable at all (Maclennan *et al.*, 1998; Stephens, 2000). It was generally expected that increased access to mortgage borrowing would make housing wealth a more important source of wealth in households' financial strategies. Yet, the interviews revealed that Germans maintain their pension in stone and have an aversion to mortgage debts, Hungarians make their own contracts based on inheritance, and the British follow a learning curve, wanting to have their cake and eat it.

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5 Comparing eight countries

The role of housing equity in retirement

Janneke Toussaint, Deborah Quilgars, Anwen Jones and Marja Elsinga (2010). The full report is available at the website of the Birmingham University: <http://www.demhow.bham.ac.uk/reports/A4.pdf>.

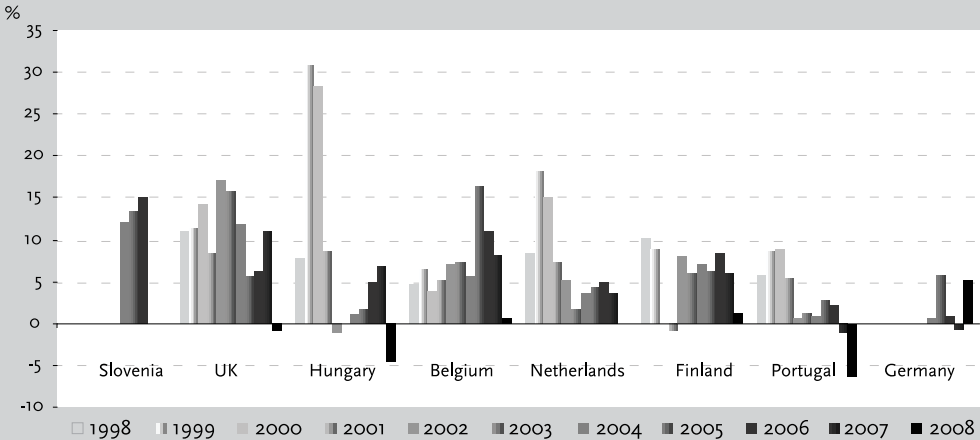
This chapter is part of the comparative report of the European project entitled Demographic Change and Housing Wealth (DEMHOW). Preceding chapters concerned the financial strategies, their views, expectations and plans of households with respect to pensions and care in old age. This part is the last analytic chapter of the report. The main questions in this chapter on the role of housing equity are as follows: (1) Is buying a house part of a long-term strategy for old age? (2) In what way is housing equity considered important in old age? (3) Is mortgage-equity withdrawal an option? (4) Why do households not consume housing wealth?

This chapter focuses specifically on the role of housing equity in financial strategies regarding retirement. In the final part of the interviews, we explicitly asked the interviewees about their housing equity and its potential role in their financial planning for old age. The option of taking out a reverse mortgage was specifically addressed. The interviewees were also asked to elaborate on the fact that the current elderly tend not to consume their housing equity. In this chapter I complement the comparison of the interview studies with statistics from other sources, from Work package one of this project and from questionnaire surveys conducted throughout the European Union under the name 'Eurobarometer'. The latter were not part of the DEMHOW project.

5.1 The amount of housing wealth

We started by asking the interviewees about the value of their dwellings and the size of their mortgage debt. The amount of housing equity is defined as the current market value of the dwelling minus the remaining mortgage.

Although interviewees in all countries seemed somewhat aware that their property had increased in value, not all were able to estimate the current market value. For instance, in Finland, Germany and Slovenia, some interviewees were unable to mention a price, as their houses had not been on the market for a long time. Others did not want to mention an actual market price; they stated that their 'home' does not represent wealth, as they do not plan to move. In contrast, price awareness appeared to be relatively high in Hungary, the UK and the Netherlands.

Figure 5.1 Annual percentage of change in house prices in 8 European countries, 1998-2008

Source: EMF Hypostat, p. 68

In all countries except in Hungary and Slovenia¹, the youngest households tended to have considerable mortgage debt and relatively little housing equity. For the youngest age group, the increased house prices were directly associated with increased mortgage debt. In contrast, older and middle-aged interviewees in all countries had profited considerably (see Figure 5.1). For example, in Portugal, it was reported that the value of the dwellings of the oldest age groups had increased 20 times. High inflation in Slovenia in the 1980s had faded away loans that had been taken out to finance housing. Further, in Slovenia and Hungary, interviewees in the oldest and middle age-groups had had the opportunity in the 1990s (during the transitional period) to purchase a dwelling for 10 percent of the market value. Overall, the gain from house price increases has been high for the middle and older age groups and comparably lower for the younger age groups. To conclude, the middle and the oldest groups had substantial housing equity that could potentially play a role in retirement strategies.

5.2 The importance of housing wealth in old age

Interviewees were asked whether their owner-occupied dwellings would be of financial importance in old age. To start, it should be mentioned that, for all interviewees in all countries, owner-occupation primarily represented a 'home'. In general, this meaning was more prevalent in the interviewees thinking and speaking than was the meaning of owner-occupation as an investment good.

Woman: "The only thing we calculated is the monthly debit, and that is not higher than the rent we would have to pay for a dwelling we like. That means a relatively big dwelling with

¹ In these two countries, savings and intergenerational transfers play an important role in financing owner-occupation. In Hungary, however, the sample was biased towards outright owners.

150 m² or so. So for that we would have to pay as much rent as we pay for the credit now".
 Man: "So for us, the function of the house is habitation... the impossibility of losing that living space because no landlord determines the tenancy. We actually didn't think of it as an investment."

(German couple, 65-75 years old)

"I see my home as something to live in... for as long as possible... No, no, no other options and... those whatever you call them, I just want to live here in peace until death and so..."

(Slovenian interviewee, 65-75 years old)

"Common sense would say yes [the home is a financial resource], but it is not something that is a big factor. It is not something that consumes us all the time, thinking 'oh it is worth so much now'. Yes, it is a kind of stability, but we are old and when you are old you die, so... it is not something that you are going to be frantic about."

(British interviewee, 65-75 years old)

Additionally, some interviewees rejected the idea that their homes could be of financial importance to them in retirement. Maintaining the house can be so expensive that the house can actually be a burden. Nevertheless, households everywhere were also aware that owner-occupation represents 'wealth', and interviewees were generally able to elaborate on the financial 'benefits' of owner-occupation in a number of areas, as described.

5.2.1 Consumption of housing wealth for undefined occurrences

First, the owner-occupied dwelling represents a valuable nest egg in old age. In case of financial emergency, if people had no other means of resolving the situation, they could cash in their housing wealth. In most cases, interviewees had no concrete occurrences in mind that could be the cause of the financial problems. When interviewees did imagine needing to release their housing wealth, they thought about selling as the most appropriate way to do so.

Woman: "The certainty of having your own dwelling and hopefully no longer having a mortgage".

Man: "Also the fact that you no longer need to pay rent. And of course, the option to sell it. But then only in extreme need, when no other options are available. It will certainly not be, for example, to buy luxury items."

(Belgian couple, 25-35 years old)

"I think it is more some sort of safety-net kind-of-thing. It [owner-occupation] is not really something I plan to earn my money with, through purchasing and selling. Because you

normally buy something more expensive after, because you want to live comfortably. But of course it is convenient to have invested your money in the dwelling. And to know that if something might happen, you could sell the dwelling and purchase something cheaper, and then have a whole lot of cash available.”

(Dutch interviewee, 25-35 years old)

“With your incomings and outgoings you just manage. And if you can’t manage, then you think about using your house. But I wouldn’t rush into this.”

(British interviewee, 45-55 years old)

5.2.2 Consumption of housing wealth for long-term institutional care

Interviewees in Slovenia, the UK and Belgium thought that housing equity might play a role in their financial strategies if they were to face extremely high costs for care in their old age. In Hungary and Portugal, interviewees without children thought that housing equity might play a role in being able to afford care.

In Slovenia, long-term care institutions (nursing homes) are described as very expensive. Children commonly take care of parents as long as they can. Parents and children need to balance what weighs more heavily: the burden of giving care or the necessity of providing financial means for the children. Slovenian interviewees expected to need their pension incomes and contributions from their children in addition to the proceeds from selling their property in order to be able to afford institutional care.

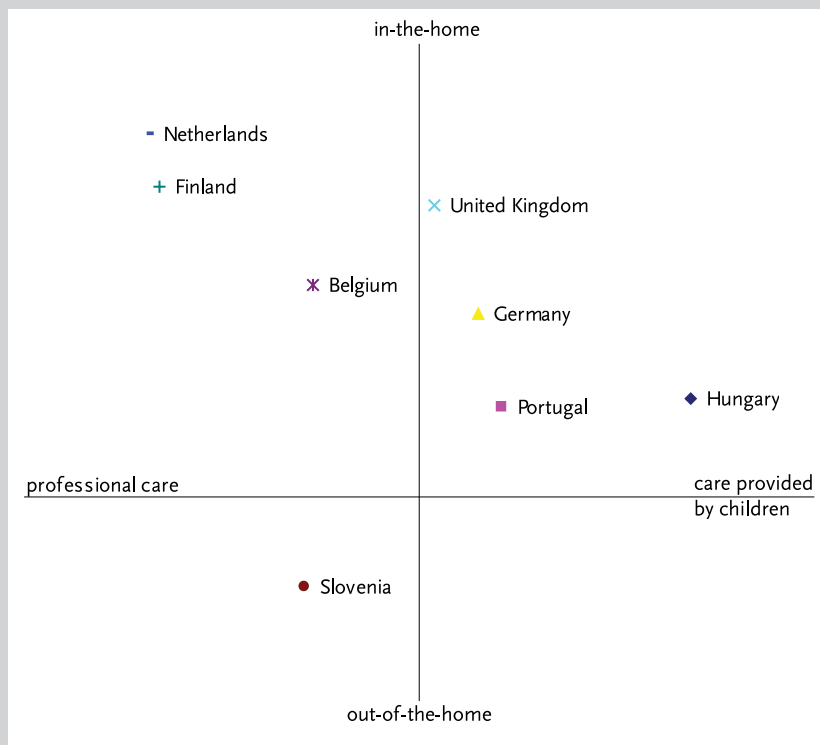
“Why would it [the owner-occupied dwelling] be significant [in old age]? Well, if I happened to want to go into a home for the elderly, I would probably need to pay more than my pension would cover, so I might make a deal with somebody for such an additional payment, otherwise I would need to sell my home. So my home is a kind of security, it is an income to cover the additional payment for a home for the elderly, if I were to accept this. I don’t know now, one can never know. It all depends upon the circumstances.”

(Slovenian woman, 45-55 years old, without children)

Figure 5.2, which is based on a Eurobarometer survey, shows that many Slovenians regard homes for the elderly as the best option for elderly parents who can no longer manage to live without regular help. This is different from the situation in the other countries. For instance, respondents in Hungary found care provided by the children the best option, while respondents in the Netherlands and Finland preferred professional care in the home.

In the UK, income, savings and capital (including housing wealth) are included in the means test for calculating individual contributions to the costs of nursing homes (UK policy report). Consequently, interviewees predicted that they would have to consume their housing wealth if they were to need to move

Figure 5.2 Best care option for elderly parents not managing independently due to health problems, in 8 European countries, 2007



to a home for the elderly. Although not explicitly mentioned by the 30 UK interviewees, it is known that there is a trend in Britain for some households to engage in ‘asset-dumping’ (i.e. giving the assets to their children or others many years before they are needed for care), so that assets are not acquired by the state (UK policy report). Some British interviewees argued further that the policies were unfair.

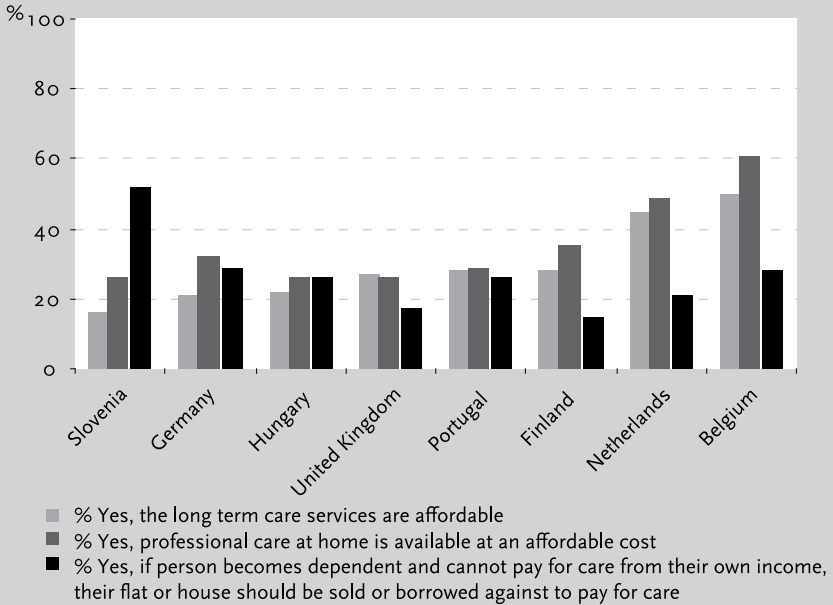
“[The elderly woman who needs professional care] would have to sell her property to pay for it, and I don’t agree. I work in the sector, and I see people who have never saved a ha’penny, they have spent their money willy-nilly on anything they wanted, and when it comes to them needing care, they get everything they want and only have to pay a very small charge, whereas people who have a pension or their own property – their charges are higher and they end up paying more... the thing is now, if you get old and need care, then you need to have nothing or mega amounts of money...”

(British couple 65 to 75 years old)

In Belgium as well, the step into a service flat or nursing home was regarded as costly. Some interviewees mentioned that a portion of the proceeds from the sale of their property could be used to pay for care.

“The house just represents capital, and if we want to move to a service flat, then we at least have a budget at our disposal.”

Figure 5.3 Affordability of care services and the role of housing wealth in 8 European countries, 2007 /2009



Source: Eurobarometer (2007, 2010)

(Belgian woman, 45-55 years old)

In Hungary and Portugal, interviewees without children regarded their housing wealth as a crucial emergency fund. In these two countries, care is still commonly provided by the children (see Figure 5.2), and long-term institutional care is perceived as relatively expensive. In Hungary, nursing homes have a bad reputation, and conditions are described as dire. The monthly fees are calculated according to income, savings and capital (including housing wealth). In addition to the regular monthly payments and an entrance fee, elderly people must pay extra to receive 'higher-level' care. Additionally, in many institutions there is the practice of 'parasolvency', meaning that patients make under-the-table payments to care providers in order to receive good care. In short, having financial means available if one has no children is crucial for good professional care in old age in Hungary. Interviewees preferred to use their housing wealth to pay a caregiver.

"It will be important. If something happens, in terms of health, it is possible to sell and use the money to get support of someone, somewhere. Because I think that the prices of institutions for the elderly are absurd. They are absurd, not minimally compatible with the amounts of pensions."

(Portuguese woman, without children, 25 to 35 years old)

As shown in Figure 5.3, respondents of the Eurobarometer in Slovenia were more accustomed to and in favour of the idea of using the proceeds from property to pay for care. Slovenia is also the country in which long-term care

and home-care services were considered least affordable. In all other countries, a minority of people thought that housing wealth should be used. People in Finland were least likely to agree that housing wealth should be used. In the UK as well, few agreed that housing wealth should be used to pay for care. Perhaps this could be interpreted as a protest against current policies that include housing wealth in the means test for the expected household contribution to the costs of residential care.

5.2.3 Consumption of housing wealth in case of insufficient pension income

In addition to a possible means of paying for care, housing wealth is also seen as a precautionary fund to compensate for insufficient pension income. Housing wealth appeared particularly important for financial well-being in Hungary, except among the most affluent households. Many interviewees could hardly get by in their working lives, and they consequently could not save for retirement. In Hungary, retirement does not logically imply that people stop working. On the contrary, many Hungarians continue working if they have the opportunity, and the small but steady state pension enables them to save, provide more financial support to their children or increase their consumption somewhat for some time. In turn, relatives are considered the primary source of support for households that are no longer able to work due to serious health problems, and that are unable to manage financially. However, if the family is unable to provide sufficient support, elderly people will calculate how much money they could realise by downsizing. In Hungary, downsizing is regarded as a realistic occurrence.

The Hungarian researchers explained that, in particular, the self-employed are a special group with regard to their pension prospects. Many evade taxes in order to have higher incomes. However, this implies that they are not fully eligible for the state pensions. They must therefore make private pension savings. Many do not succeed – they invest in their businesses instead – and they therefore expect to continue working after retirement. Should health conditions prevent them from working, however, they might have to use their housing wealth.

In the UK and Finland, some interviewees expressed a strong distrust towards private pension funds, preferring instead to invest in bricks and mortar. In the UK, there have been many cases where people lost all their pension savings. These occurrences received considerable media attention, and people became wary of the private pension funds. Some British interviewees had lost their pension savings because companies went bankrupt. In response, the youngest age group indicated a preference for investing in their owner-occupied dwellings, and they wished to climb the housing ladder. During retirement, they ‘planned’ to step down the housing ladder once again.

In Finland, the aggressive marketing of private pension insurance by the banks appeared to strike a nerve with young interviewees. They also preferred to stay in control of their own pension savings and financial means, instead of leaving it in the hands of private pension insurers. They regarded investment in housing as more attractive. Compared to the youngest British interviewees, the youngest Finnish interviewees seemed to speak more about second properties, instead of their owner-occupied dwelling. They stated that, instead of being dependent on pension funds, they would be in control of the investment themselves. Furthermore, if they should pass away early, the capital would be passed on to their children.

“Somehow it would feel like owning something concrete, it’s something there for me, and if I die or something then it would be passed on to my children, and they would get to own it. I enjoy owning something concrete. I don’t want them [the insurance company] to send me something in the mail every month in order to find out the current rates.”

(Finnish woman, 25-35 years old)

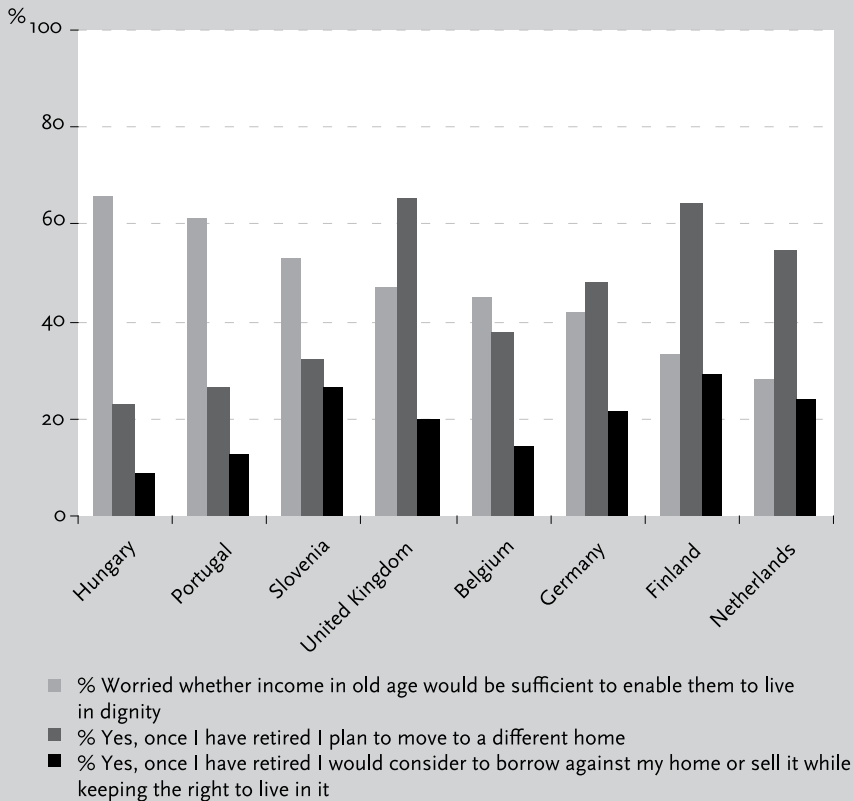
The youngest households in Finland were not the only ones to speak about investing in second properties to let. This was also found in the Netherlands, Germany and Belgium. These second properties were typically seen as part of their financial planning, more so than their owner-occupied dwellings. First, they expected to receive rental income from these properties. Second, in the case of a financial emergency, they could sell the property and cash in this housing wealth.

Nevertheless, a number of interviewees in the Netherlands who did not have second properties had ‘plans’ to consume housing equity by selling their owner-occupied dwellings. One household was already living on a relatively low income. Upon retirement, he planned to sell his apartment and move into the rental sector, in order to have somewhat more financial means. In the Netherlands, moving into rental housing is considered an appropriate option. In contrast, interviewees in Hungary, Slovenia, UK, Finland and Belgium stated rather strongly that selling and moving into the rental sector would not be an option.

In the Netherlands, self-employed people, who do not automatically participate in mandatory pension saving (in contrast to employees), often included housing wealth in their plans. Many of the retired interviewees who had been self-employed during their working lives had downsized. It must be said that they could still afford relatively luxurious apartments, and their living standards were above average. Self-employed people between the ages of 45 and 55 had plans to sell.

Man: “Yes, the house is our nest egg. It gives us the luxury to do many things we would like to do. It is the icing on the cake. We will sell the house, because with the two of us, what would we do with it. It gives us way too much work, six bedrooms... With the children it is perfect, and with family staying over. But at some point, it will be too big”.

Figure 5.4 Expectations about retirement income and the role of housing wealth by non-retired households in 8 countries, 2008/2009



Interviewer: "What will you do then?"

Man: "No idea, it depends, maybe we will buy a camper. I really have no idea."

(Dutch couple, man is self-employed, both 45 years old, living with children)

The quote illustrates that the couple does not only plan to sell in order to cash in their housing wealth, they considered the fact that the dwelling is big and needs considerable cleaning and maintenance. Hence, the couple planned to move to acquire housing that would be more appropriate. This argument was also used in Finland, where quite a number of interviewees were able to imagine downsizing in their old age.

Figure 5.4 shows the extent to which non-retired respondents of the Eurobarometer worried about the sufficiency of their future pension incomes and whether they planned to cash in their housing equity. In Hungary, Portugal and Slovenia, people appeared most worried about their future pension incomes. At the same time, here relatively few respondents appeared to plan or consider moving to a different home. In Finland and the Netherlands, where the fewest households were worried about their pension incomes, relatively many households seemed to consider moving. The UK stood out with a high share of households indicating that they would consider moving house once they had retired. Further, a large share of the UK households worried

about whether they would have sufficient income in their old age. The relatively common idea of climbing up and down the housing ladder might explain the relatively high share of British households that expressed plans to move. Overall, it is important to consider that, in the Eurobarometer, the question about moving house was asked to both tenants and owner-occupiers. Hence, these data provide only a limited indication of the consumption of housing wealth for some countries. For example, in Germany, where only 43 percent of all households are owner-occupiers, tenants are likely to be the most inclined to move. In the Netherlands as well, with an owner-occupancy rate of 57 percent, research has indicated that it is more often tenants who move in retirement (Kullberg & Ras, 2004).

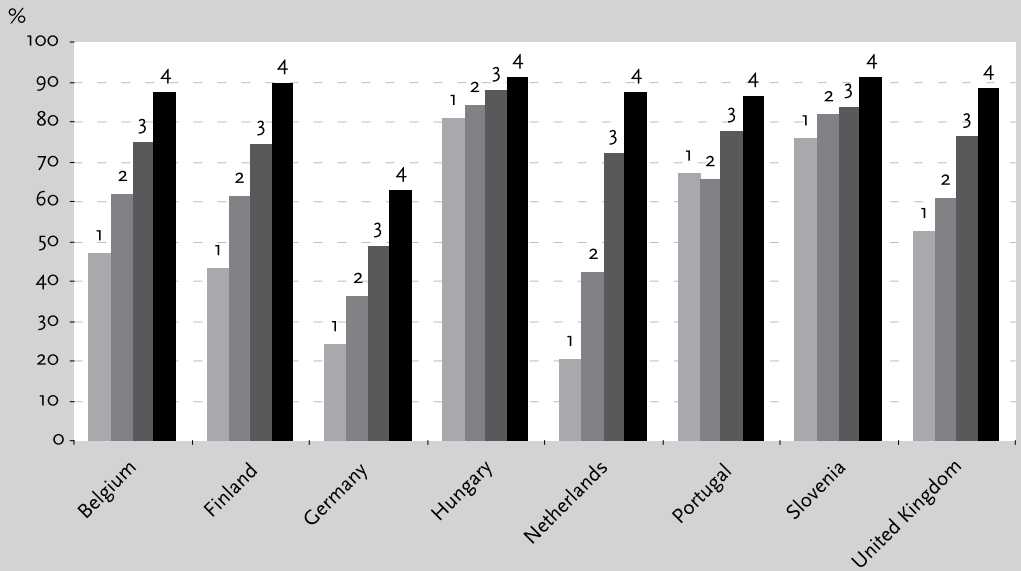
Cashing in housing equity was not generally regarded as a good solution for everyone in need. In Hungary, Finland and the UK, interviewees mentioned that the consumption of housing wealth was only an option for people with relatively expensive properties. If the latter were to move in order to cash in part of their housing wealth, they would still be able to live at an acceptable location and in an appropriate dwelling. In Hungary and the UK, interviewees expressed their worries about the limited gains they would obtain by downsizing. Some thought they would not have any alternatives, as they lived in relatively inexpensive dwellings and cashing in their housing wealth would mean a serious drop in the quality of their living standards. They would have to move to an unattractive location, where house prices would be substantially lower. Some stated that this would be the point at which they would have to consider mortgage-equity withdrawal. Households in both countries were aware of this option. The Hungarians mentioned the aggressive marketing of reverse-mortgage products. They also mentioned that this product is non-ethical, as their children expected to receive an inheritance. Nevertheless, in the absence of any other way out, this would be an option for consideration.

According to the German researchers, interviewees in Germany would be relatively unlikely to be confronted with financially urgent situations that would require them to consume their housing wealth. Owner-occupiers in Germany are the most affluent households in society; they have low housing expenses, as compared to tenants. Many of the older interviewees even possessed second dwellings, which they let and which they could sell if they were no longer able to manage financially. Similarly, owner-occupiers in the Netherlands tend to be more affluent. In contrast, many people in the lower income quartiles in Hungary, Slovenia and Portugal are living in the owner-occupied sector (see Figure 5.5).

5.2.4 Low expenses

In all countries, except the Netherlands, most owner-occupiers are outright owners in old age. This means that the mortgage has been repaid and the

Figure 5.5 Percentage owner-occupiers within income quartile (EU-SILC) in 8 European countries, 2006



Source: EU-SILC

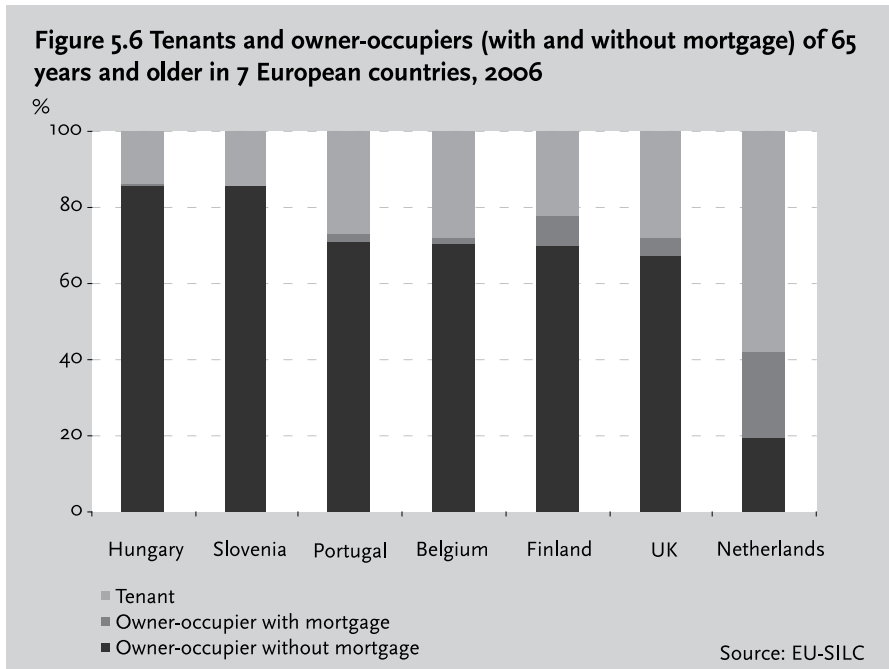
household has relatively low housing expenses, as compared to tenants.

“If someone rents a house, he also has to pay electricity water etc. We own the house and we pay the expenses of the condominium, but that is nothing compared to rent.”

(Portuguese man, 65-75 years old)

This situation was most commonly expressed as an important financial advantage in Germany, Belgium, Portugal and Finland. Interviewees in Finland expressed a common belief that it is possible to retire once all the debts, including the mortgage, have been paid off. In most countries, however, the choice to buy a dwelling in the early stages of the life course was not associated with retirement planning and the future advantage of having low housing expenses in old age. Buying a house mainly represented acquiring a decent roof over the head, and it was not linked to the retirement strategy. As an exception, the young interviewees in Germany did regard the purchase of a house as part of their financial plans for old age. In a country in which only 43 percent of households are owner-occupiers and in which renting can also provide a decent roof over the head, low housing expenses in old age are an important argument for buying.

In Hungary and Slovenia, low housing expenses are less pronounced as an important financial advantage for old age. Interviewees in these countries were already outright owners in the earlier stages of their life courses. The mortgage market is less developed; savings and intergenerational transfers play a key role in financing the purchase of a dwelling. Hence, the transition between working life and retirement is not associated with a sudden change in housing expenses. Moreover, because there are not that many tenants, the interviewees did not compare themselves to them. Having no monthly mortgage expenses



in old age, but also in earlier stages of the life course is regarded as self-evident.

Finally, the Netherlands is a special case, as fewer and fewer owner-occupiers are repaying their mortgages in full. At the end of the mortgage term, many still have a remaining debt. They keep this loan in the form of an interest-only mortgage. This situation emerged in response to the fiscal arrangements in the Netherlands for mortgagees, which makes mortgage loans inexpensive. Financial advisors had advised retired interviewees not to repay the mortgage, but to keep part of it unpaid, as it would be more profitable to invest savings elsewhere. Another reason that it is feasible is because current retirees in the Netherlands have relatively high incomes and can therefore easily afford the remaining mortgage debt. From the interviews, however, as well as from another study, it appears that many young people do not realise that they will still have mortgage debt left once the mortgage term expires (AFM, 2010). When these young Dutch people reach retirement age, they are likely to face higher housing expenses than they expected. It will depend on the pension incomes whether they will be able to afford these housing expenses.

The deviance of the Netherlands with respect to the other countries within the study can also be seen in Figure 5.6. Most elderly people live in the rental sector. Of those who are owner-occupiers, about half have a mortgage and hence monthly mortgage expenses. It is expected that future generations of elderly people will be more likely to be owner-occupiers (Kullberg & Ras, 2004). Hungary and Slovenia stand out as countries with a large majority of owner-occupiers, who have no mortgages remaining in their old age.

5.2.5 Letting in case of emergencies

In various countries, interviewees stated that, in case of emergency, they would prefer to let out their dwellings rather than selling them. In Belgium,

the youngest interviewees were particularly likely to argue they would rather let. They found it important to pass on substantial wealth to their children in the future. In Slovenia and Hungary, this was also seen as a viable option in case of emergency, as the inheritance of the property was important for the future financial well-being of their children. If the house was large enough, they could rent out part of their dwelling. If it was small, or if the income from the rent would not be sufficient, they would move in with their children (at least temporarily) and let the entire dwelling.

In Germany, households could imagine that, in case of financial emergency, they would move into relatively inexpensive rental dwellings and rent out their owner-occupied dwellings. This would make it possible to keep the property within ownership of the family. Many of the German owner-occupiers had received inheritances or financial means from their parents, which enabled them to enter owner-occupancy or even to possess other dwellings. Many stated they would like to do the same for their own children.

5.3 Considerations about reverse mortgages and trust in banks

New financial products have been developed especially for older people who wish to liquidify their housing assets in order to add to their pension income, while continuing to live in their dwellings. To date, it has been estimated that these financial products make up 0.1 percent of the European mortgage market, and that they have thus not yet become very popular (Reifner *et al.*, 2009). Due to the increasing pressure on collective old-age welfare provisions, these types of products are expected to become more popular in the future. Although several options for releasing housing equity are available across Europe (see Table 5.1), our interviews focussed on reverse mortgages.

5.3.1 Familiarity with reverse-mortgage products

Interviewees in all countries were asked whether they had heard of reverse mortgages and whether they would consider using them. We explained then the product as follows: “A reverse mortgage is a mortgage product that enables people to use the money stored in the homes to supplement their pension income. It works like this: Although people own their dwellings outright, they take out a new mortgage. They receive a capital sum, and the interest payable on this loan is added to the mortgage (so they are not required to pay immediately). The money they borrowed and the added interest will be repaid when the house is sold upon their death or if they move (e.g. into residential care).”

Overall, reverse mortgages appeared a well-known product in Hungary and

Table 5.1 Possibilities for equity release while remaining occupant of the dwelling

	Reported level of occurrence	Options equity release	Provider	Availability reverse mortgage* (equity release scheme – Loan model)
Belgium	Marginal	Selling on life annuity to private persons Usufruct and receiving monthly payment to private persons Donating to children and receive care in return	Private persons	No market
Finland	Marginal, but described as new phenomenon with potential due to tax advantages; interest from government	Reverse mortgage schemes	Financial institutions	Less developed market
Germany	No market Conservative mortgage lending	Second mortgages		No market
Hungary	Marginal	Life annuity – cash transfer of about 15 to 30 % of the value of the dwelling; the annuity can also be assigned to another person than the owner Other equity release products	Financial institutions	Less developed market
Netherlands	Marginal	Selling in return for permanent right of occupancy Personal loans with lower interest rate when house is collateral Mortgage-equity withdrawal for elderly	Housing corporations Financial institutions	No market
Portugal	No market for reverse mortgages			No market
Slovenia	Marginal	Municipality of Ljubljana purchases dwelling; annuity minus non-profit level rent goes to previous owner Limited options with banks – debts need to be repaid by age 75	Local governments Financial institutions (limited)	No market
UK	Limited use, 1 percent of pensioners uses it, but broadly available and younger households show interest	Lifetime mortgages: - lump sum and/or income and interest-only mortgage - lump sum/income and rolled-up interest loans (interest accumulates and is repaid when owner passes away) Home reversion schemes (household sells to reversion company)	Financial institutions Reversion company	Significant market

Sources: Countries' policy reports; * Reifner 2009

the UK. A number of interviewees in the Netherlands and Finland indicated that they had heard of it as well. In contrast, interviewees in Portugal, Belgium, Slovenia and Germany were generally unaware of the product. According to another EU study on equity-release schemes, the UK has the most developed market for equity-release schemes, and reverse mortgages are among the available options (see Table 5.1). Reverse mortgages are available

to a lesser extent in Finland and Hungary, they are not available in Germany, Belgium, the Netherlands, Portugal or Slovenia (Reifner *et al.*, 2009).

The reason why interviewees in the Netherlands had heard about reverse mortgages is that financial institutions offer similar products that do not exactly match the definition of reverse mortgages (see Table 5.1).

5.3.2 Bequest motive

In all countries, the main principles of these products were explained to those who were unfamiliar with them, and the interviewees were then asked whether they would consider using such a product. In all countries, many interviewees stated that they would not consider using a reverse mortgage. Interviewees with children were particularly likely to regard it inappropriate as a means of raising living standards in old age. At the same time, however, interviewees stated that, if there should be a pressing need for money (e.g. if the level of pension income was lower than expected), this option could be taken into consideration.

In addition to having little knowledge about reverse mortgages and a careful and conservative attitude, the most crucial factor that affects considerations about reverse mortgages seems to be the presence of children. This appears from differences in the responses of interviewees with children (who regarded a reverse mortgage as an inappropriate way of raising living standards) and those of interviewees without children (who could more easily imagine using such a product). Leaving housing wealth as a bequest seems a common thing to do, and it is often considered self-evident.

“I would not do that [use mortgage-equity withdrawal]. We bought this house after our child was born. I could die tomorrow, but my son would have a place to live. I think that someone without children thinks about it. Those who do have children do not.”

(Portuguese couple, 45-55 years old)

“Well, in this age, getting into debt is among the last things to do, and it is strictly a last resort. It can happen that, if one dies, the children still have to pay the debts.”

(Finnish interviewee, 65-75 years old)

“No, I wouldn’t consider reverse mortgages. I bought this house in order to be able to give my children something. This way, I can give them a starting capital, so that they are able to buy their own houses. Even aside from that, I wouldn’t do that, because then your house would no longer be your own. It becomes property of the bank. It would feel like renting.”

(Belgian woman, 25 to 35 years old)

5.3.3 Independence from financial institutions

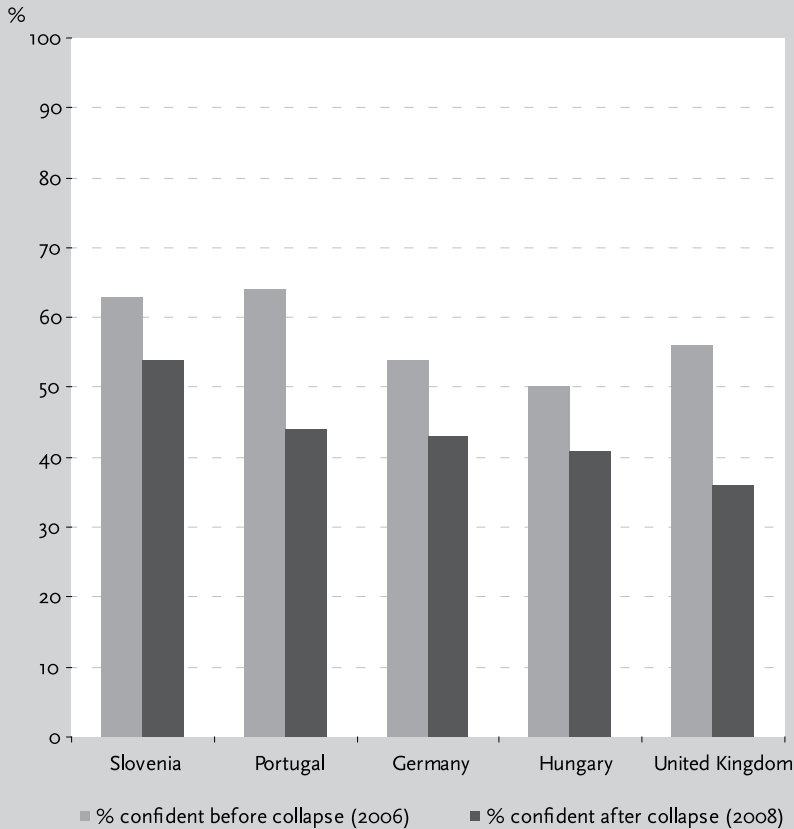
Furthermore, interviewees in all countries addressed the belief that, in old age, one should not become dependent on a bank (again); risks are associated with these types of products, they are perceived as complex, and there appears to be distrust towards financial institutions.

Interviewees also expressed worries about the costs of such a product. Slovenian interviewees mentioned high interest rates in comparison to relatively limited gains. In the UK, some of the interviewees thought that reverse mortgages did not offer good value for the money. In Portugal, people feared hidden costs, as did interviewees in the Netherlands. Another issue involved price evaluation by banks. In the UK and Portugal, some interviewees thought that banks were not trustworthy and would underestimate the value of their properties.

Additionally, interviewees expressed a high level of concern about the increasing mortgage debt. In Germany, reverse mortgages do not fit well with the aim to become an outright owner – to become free of debt – during the life course. Interviewees in the Netherlands and Slovenia also mentioned this aversion towards new mortgage debt during old age – it would mean losing at least a part of the ownership of the ‘home’. Furthermore, given that people do not know how old they will become, they fear that the debt would grow and possibly exceed the value of the dwelling. In the Netherlands, Germany and the UK, interviewees argued that this could cause problems. For example, old people could be evicted – a possibility that the interviewees considered highly inappropriate. Another related risk is that children could be left with a debt as a bequest. This concern was also expressed by the Finnish interviewees.

In Germany, interviewees generally appeared to offer the most detailed expressions of the advantages and disadvantages of reverse mortgages. Some interviewees thought it is troublesome that even more highly educated households often cannot fully understand the risks and conditions of financial products such as reverse mortgages. The limited knowledge and understanding that households have is probably the reason why ‘trust’ was such an important issue for interviewees in all countries. Interviewees in Finland and, to some extent, the Netherlands seemed to trust financial institutions more than the respondents from other countries did. Interviewees in Germany and Slovenia trusted some non-profit financial institutions (e.g. *Sparkasse*), while less trust was apparent amongst interviewees in the other countries. In Belgium, interviewees stated that they would rather deal with private persons (as is current practice; see Table 5.1) than with banks. In all countries, interviewees referred to alternatives to reverse mortgages, such as cutting expenses, selling the dwelling or letting. These options would guarantee that an owner-occupier would stay ‘in control’.

Figure 5.7 presents the outcomes of a Eurobarometer study, it shows the

Figure 5.7 Confidence in financial institutions in 5 European countries

Source: Gallup (2009)

level of trust in financial institutions for five of the countries included in this study. Not surprisingly, the level of trust in all countries had decreased because of the financial crisis. The least trust is currently found in the UK, and the highest level of trust is in Slovenia.

5.3.4 Reverse mortgage as a last resort

Regardless of the arguments discussed above, reverse mortgages were not completely excluded from the strategies of households. In all countries, interviewees could imagine using a reverse mortgage as a last resort. Further, as mentioned above, households without children in all countries except in Slovenia could more easily imagine considering this financial product. In the Netherlands, Finland, the UK and Germany, some interviewees with children could also imagine considering this option. Some used dramatic terms, such as 'people need to be desperate' and 'only if there is a pressing need'. They found it difficult to envisage that people would use mortgage-equity release simply to raise their living standards. In the Netherlands, however, one self-employed interviewee who was planning to sell his dwelling in retirement indicated he would use a reverse mortgage if house prices had dropped. Ad-

ditionally, in the Netherlands and Germany, the youngest and middle age groups seemed more open than the oldest group was to the idea of a reverse mortgage.

In Germany, the pension system has recently undergone radical changes, and statutory pension incomes will be substantially lower for future older generations – additional private savings will be necessary in order to sustain a certain living standard during retirement. Several of the German interviewees in the middle age group felt that it was too late to save sufficiently; for some of them, the reverse mortgage therefore sounded an interesting option that they would consider, along with other options.

5.4 Why not consume housing equity

One of the findings of the macro studies in Work Package 1 of the DEMHOW project was that current older generations do not consume their savings and housing wealth as much as they could. Interviewees were asked to elaborate on this. We asked the following: “Finally, we would like you to reflect on one of our research findings from a different part of the project, which was undertaken by economists: People save money for risks and older age. They often save more than might be necessary and, when they are old, they do not want to spend all of their savings. They also choose not to use the equity stored in their homes. Why do you think people behave in this way?” Interviewees in some countries elaborated more on the question of why older people did not consume their ‘savings’ and less on why they did not consume their ‘housing wealth’. The reason is apparently that many interviewees found the issue of spending – or not spending – savings more relevant than they found the issue of consuming housing wealth. The majority of interviewees thought of housing wealth as an illiquid asset. One would have to move in order to cash it in and consume it. As discussed above, the mortgage-equity-release products were not very well known, and they were often not seen as an appropriate way of releasing housing equity. Consequently, interviewees in Finland did not elaborate much on the consumption of housing wealth. German interviewees also indicated feeling uncomfortable with the subject, as ‘they did not really know what else there would be to do with housing equity’. Nevertheless, interviewees did elaborate on the issue at least to some extent, and they appeared to think in rather similar ways across countries.

5.4.1 Housing equity as a precautionary fund

The most common reason offered was that the owner-occupied dwelling represents a precautionary fund, which people would want to keep as long as possible. People do not know what kind of events they would still encoun-

ter in life. Because retirement would ordinarily require managing on less income than they had received from work, most people felt the need to be prudent and careful. Old age brings health risks that could potentially place financial situations under pressure. Interviewees mentioned potential changes in social security and welfare provisions, which could have a negative effect on their future financial situations. Moreover, people cannot predict how old they will become.

“They might be frightened of losing the house. People want to be able to pay for things and not be a burden. They don’t know how long they are going to live. And perhaps as you get older, you get more cautious. I think people also tend to think they are poorer than they are. How do you know how much money you will need?”

(British couple 45-55 years old)

5.4.2 Loss aversion

Another common response was that the consumption of housing wealth would imply that older owner-occupiers would ‘lose’ what they had owned. In all countries, interviewees mentioned an attachment to the ‘home’. The house is not only an investment good, it is also – and for most, primarily – a consumption good. After discussing the ‘irrational excessive saving behaviour’ of the current elderly, one Finnish interviewee stated the following:

“I understand it much better that one does not want to sell one’s dwelling. It is like a lot of memories get into these walls over the years, so that it can be much more valuable than the bank account... well, it is dear to you, that dwelling. But I can’t understand how an account can be dear to anyone, a bank account. That one does not want to give up the dwelling, that I understand much better.”

(Finnish couple 25-35 years old)

More generally, interviewees explained that the dwelling represents a certain living standard that significantly enhances the quality of life. If releasing housing equity required moving, this would be lost. In Germany, interviewees emphasised their great attachment to their homes by referring to the fact that owner-occupiers put a lot of effort into renovating and, in some cases, constructing their own dwellings. In Portugal and the Netherlands, it was emphasised that this attachment would be something that would typically increase with age. The current younger groups could still imagine moving in old age; upon reaching old age, however, these groups are likely to be similarly attached to their homes as the current elderly are to theirs.

Interviewees in Germany, Belgium, the UK and Portugal mentioned that consuming housing wealth would mean the rapid evaporation of years of work and building assets. This seemed very unattractive to them; they

thought that it would cause an unpleasant feeling. If they were to make use of equity-release products, they would change from independent owner-occupiers into dependent mortgagees. In Belgium and the Netherlands, interviewees remarked that it would be like renting again. In contrast, the aim in life was to become increasingly independent during the life course. Equity release was therefore considered inappropriate. The dwelling would belong to the bank instead of to them. Moreover, once they passed away, the property would go to the bank instead of to the children. Once again, this was regarded as an unpleasant prospect.

Some interviewees argued that having savings and having assets represented power, respect and value. Overall, there seemed to be a deep fear of ending up with nothing.

“It’s the way they [the current elderly] are brought up. It is hard work to save all that money and they are reluctant to spend it. You become conditioned to your own economy. I think if you started to spend money – it is easier to start than to stop... you can lose control.”

(British couple, 65-75 years old)

“Because it gives such a good feeling to have something. To have some reserves. Very old-fashioned. Just the feeling of it is convenient. And then, if it is not for you, it is for your children. That’s important.”

(Dutch couple, 45-55 years old)

5.4.3 Bequest motive

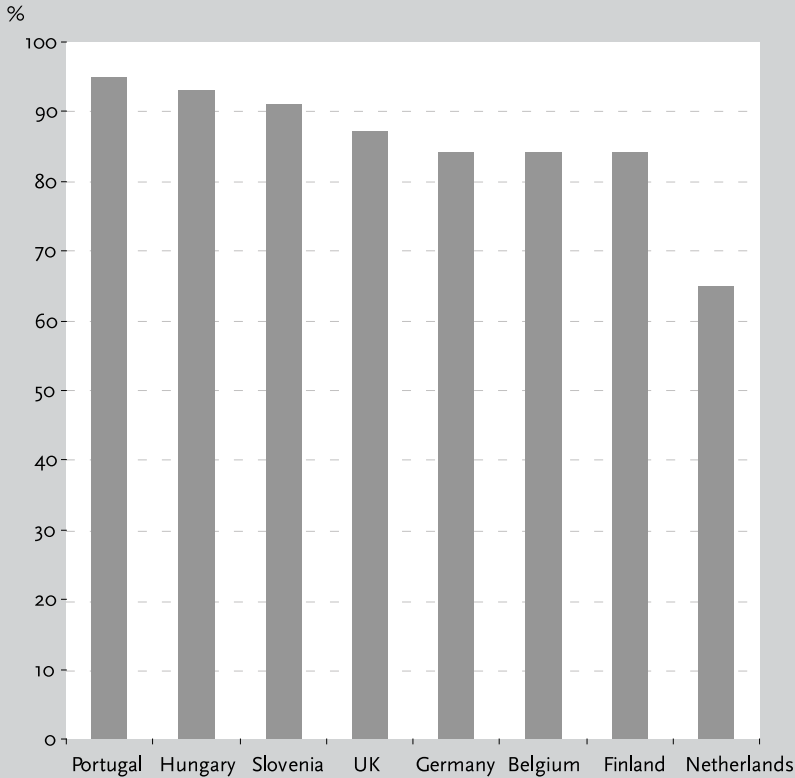
The bequest motive has already been discussed in relation to other reasons for not consuming housing equity. First, it is linked to the precautionary motive: as explained in the Slovenian report, ‘It is better to leave something behind, than to be provided for by others’. Older people did not want to become a burden to their children in their old age; they did not want to become financially dependent upon them. In many cases, this seemed to be a stronger motive for not spending housing equity than was the wish to pass housing wealth on to the children. For instance, analysis of the interviews in Belgium and Portugal revealed that, surprisingly, older people did not mention the bequest motive explicitly; precaution appeared to be their main argument.

“It could also be the case that older people are scared to be a burden to their children. They are used to taking care of themselves.”

(Belgian woman, 45 to 55 years old)

The bequest motive also became evident when interviewees think about reverse mortgages. They appeared uncomfortable with the idea that the property would go to the bank instead of to the children. Additionally, interview-

Figure 5.8 Financial help from parents and grandparents to young adults who establish their own households and families (in %) in 8 European countries, 2009



Source: Eurobarometer (2009a)

ees in all countries suggested that older people consider the financial futures of their children when deciding about the consumption of housing wealth. In Hungary, housing wealth appeared crucially important to the future of the children. Solidarity among family members is generally expected, as people cannot rely on welfare provisions as a safety net. Additionally, the transfer of dwellings is common practice. The consumption of housing wealth would therefore have a great impact on the traditional ways of redistributing assets amongst family members. German interviewees also appeared to consider leaving a bequest important. They feared social decline in the future, which could negatively affect the financial circumstances of their children. Figure 5.8, which is based on a Eurobarometer survey, provides an indication of the importance of intergenerational transfers in the eight countries.

“It’s better to save too much than to save too little and then suddenly have nothing left in old age. You still can pass it on to your children to build up an existence for them. I think that’s also a little bit like thinking of the children and saying, I don’t need that much money in old age anyway. I don’t have that much anymore, I don’t travel, don’t go to cinema, so what do I need the money for? I’d rather give it to my children.”

(German interviewee, 25-35 years old)

5.4.4 Reduced needs

Another explanation that was offered for why older people do not consume their housing equity was that older people have no 'need' to do so. They have sufficient income, and their needs diminish. This was mentioned in Belgium, the Netherlands, Finland, Slovenia and Germany.

"Your needs at a certain age are less than they were when you were young. You have experienced a lot already. You have been out to have dinner at a restaurant. You have eaten lobster. You have been to many different continents, and so on. At a certain point, you reach a saturation point."

(Belgian man, 65 to 75 years old)

5.4.5 Habit to save, not spend

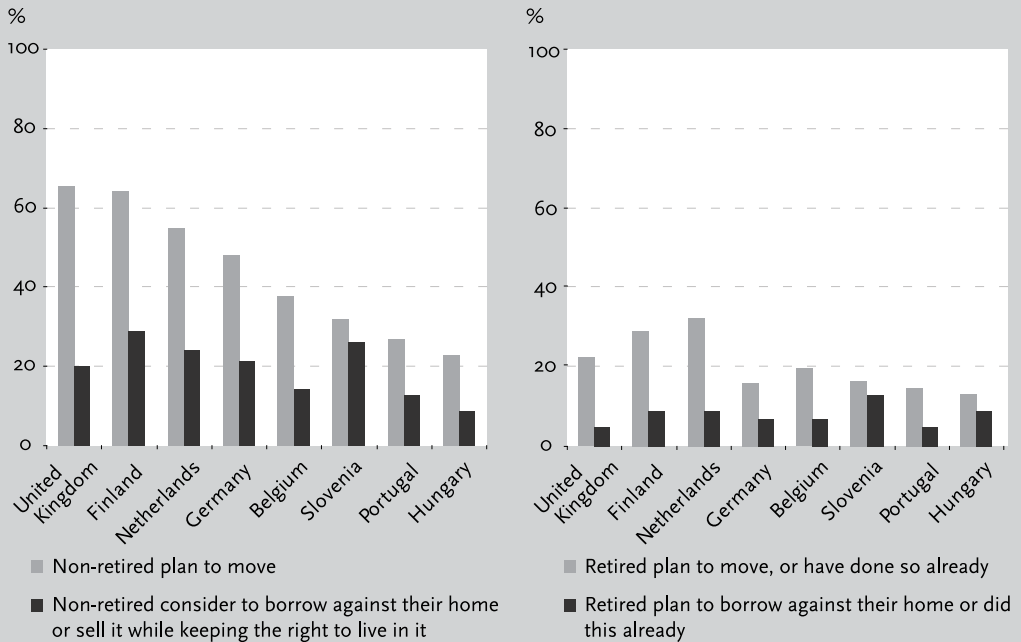
An additional explanation is that older people have the habit of saving; it was likely a part of their culture, of their socialisation. For instance, interviewees in Slovenia mentioned that older people are more used to modest living than younger people are. In Finland, Germany and the Netherlands, interviewees mentioned such concepts as Protestantism, Lutheranism and Calvinism. They all referred to beliefs that saving is 'good' and having debts is 'bad'. A general aim during the life course would be to become debt-free upon reaching old age. Using an equity-release product would thus break through this common belief. In Belgium and the Netherlands, interviewees described the use of mortgage-equity-release products as inappropriate luxury, or excessive spending.

However, interviewees in all countries except Hungary argued that younger people think somewhat differently than older people do. Respondents in Slovenia described how the youngest age group was cynical about the non-spending behaviour of the elderly. Finnish interviewees also thought the oldest age group should enjoy and spend more of their savings, as 'they won't have pockets in their shrouds'. In most countries, it was suggested that, because younger people have generally experienced more prosperity, it might be easier for them to spend their savings and assets in old age. In contrast, many older people have experienced financial hardship. Interviewees in Belgium, Finland, Germany, the Netherlands and the UK referred to the effects of the Second World War on people's living standard at that time.

"People who have experienced the war are scared of never having enough. Back then, social welfare was not what it is now. It is stuck in people's brains – mine as well. It is truly stuck."

(Belgian man, 65 to 75 years old)

Figure 5.9 Plans and considerations of the non-retired to move or borrow against their homes, and the (carried out) plans of the retired in 8 European countries, 2008*



* Plans to move are most likely asked to all respondents, hence both owner-occupiers and tenants. For Germany it needs to be taken into account that many respondents who indicate to plan to move will be tenants. The second question about borrowing against the dwelling has probably been asked only to owner-occupiers. It is unclear whether the outcomes shown are only for owner-occupiers, or also the tenants.

Source: Eurobarometer (2008)

In the UK, interviewees also mentioned the collective memory of historic policy responses to poverty in England. These policies had led to very harsh treatment of people who lacked the means to support themselves. In Portugal, interviewees referred to times of deprivation that had occurred more recently, during the dictatorial regime (1926-1974).

“Before 25 April [1974 – the end of dictatorial regime], there was nearly no pension system. Civil servants had one but not the others. People therefore got used to saving, to building assets in order to face any emergency. Because social security was terrible. Terrible or even nonexistent.”

(Portuguese woman, 45 to 55 years old)

5.4.6 Reluctance to move

Various researchers found that interviewees in the youngest and middle age groups were more willing to consider moving than older interviewees were. This difference between the non-retired and retired can also be found in the Figure 5.9 that is based on a Eurobarometer study. In Portugal and the Netherlands, the difference between the age groups has been explained (partly) as an effect of age. Hence, when the youngest group reach old age, they might be similarly reluctant to move. There are also indications that

mobility is higher amongst younger households, future generations might thus be more accustomed to moving and regarding their dwellings as a financial asset. However, research conducted in the United States has indicated that retirees are five times more averse to loss than the average person is (AARP & ACLI, 2007). The extent to which this is due to an age or cohort effect is unclear.

Figure 5.9, once again based on the Eurobarometer, (on the left) shows the considerations of the non-retired (working) generations with regard to moving or borrowing against the home. The figure on the right shows the plans (both anticipated and carried-out) of the retired. In the UK, Finland and Germany, the plans of the working generations seem to deviate most strongly from those of the retired generation.

5.5 Conclusions

In this chapter, we explored the extent to which housing equity plays a role in household financial strategies regarding old age. Owner-occupiers can profit from their housing wealth in three main ways. First, in old age, owner-occupiers are normally outright owners, meaning that housing expenses are reduced much more sharply than are those of tenants. Second, they can cash in their housing equity by selling the dwelling, and subsequently renting or buying a less expensive dwelling. The third option involves the more recently developed option of mortgage-equity release. This type of mortgage enables retirees to release their housing wealth while continuing to live in the dwelling. Following the line of reasoning of life-cycle theories, the third option is often seen as one with potential for the future, as it would change housing wealth from an illiquid to a liquid asset.

The interviews show that the owner-occupied dwelling primarily represents a 'home', a certain living standard and, when it is owned outright, it represents independence. In the second place, it represents wealth. Owner-occupiers are often aware of the value of their dwellings. The older generations have made substantial gains on the housing market, and they are asset-rich as a result.

In difficult times, the home represents a nest egg that can be cashed in by selling. In various countries, people spend housing equity to pay for care in a residential setting. This appeared particularly important in Slovenia, where it was a common use for housing equity. Further, in countries where children play a crucial role in caring for parents (e.g. Hungary and Portugal), some people without children used or planned to use housing equity to receive care by leaving the dwelling as a bequest to a person (often someone within the extended family) who would take care of them.

Housing equity also figures into financial strategies as a way of addressing

the possibility that pension income would be too low to make ends meet every month. The most commonly mentioned strategy involved moving to a less expensive dwelling. The UK stands out in this regard, as the youngest group of interviewees referred to climbing down the housing ladder in retirement in order to cash in housing equity: investing in bricks and mortar is regarded as preferable to investing in private pension funds. Interestingly, in all countries, the decision to move was usually considered not only in reference to the need for additional income, but also in reference to the need to reduce the costs of maintenance. For many older owner-occupiers, maintenance is a burden, both physically and financially.

It should be noted that buying a less-expensive dwelling is not an option for all owner-occupiers. It is acceptable and viable primarily for owner-occupiers with relatively expensive properties. Those in the lower-priced segment of the market have fewer possibilities for cashing in a significant amount of their housing wealth while maintaining a reasonable standard of living. The Netherlands was the only country in which the rental sector was an acceptable alternative. In other countries, people in these lower-priced dwellings regarded mortgage-equity release as the only realistic option for releasing their housing equity.

In countries where the mortgage market plays an important role in financing the purchase of a dwelling, mortgage repayment typically ends before retirement. Consequently, owner-occupiers are aware that they will have lower housing expenses and hence a higher disposable income. This financial advantage is even more pronounced in countries where the rental market covers a large part of the housing stock. Germany was the only country in which retirement planning was one of the arguments for purchasing a dwelling early in the life course. This argument assumes that, in old age, owner-occupiers are financially better off than tenants are, as they have lower housing expenses.

Overall, the financial products with which retirees can release housing equity are not met with great enthusiasm. Two main factors have an impact. The first involves the bequest motive. People without children appear more open to mortgage-equity release in old age than do people with children. This is most noticeable in countries where the financial futures of children are uncertain, as the welfare system does not provide a safety net. In these countries, the dwelling as a bequest is essential in family strategies. However, in countries where children are better off, owner-occupiers with children do not want to become a burden to their children. Respondents in these countries expressed uncertainty about future expenses (e.g. for health care), which led to the desire to keep their housing equity as a safety net.

A second crucial factor explaining why equity-release products are not met with great enthusiasm involves the trust that people have in the providers of these products. Taking out a reverse mortgage means losing control, running

risks and becoming dependent (in some cases, analogous to renting). Hence, if the provider appears untrustworthy or has a bad reputation, the chances that people will choose to use this financial instrument are lower. Even before the financial crisis, people had not fully trusted financial institutions, and the current financial crisis has had a negative effect on the reputation of the financial sector. Non-profit financial institutions (e.g. *Sparkasse* in Germany) were regarded by some as reliable institutions from which people could consider taking out equity-release products.

In conclusion, the current and next generation of retirees who became owner-occupiers during the life course have realised considerable gains from the housing market. They are (or will be) asset-rich in retirement. Earlier chapters revealed that financial planning for care in old age is poor. With respect to the pension planning, we found that people were particularly likely to react with a 'wait-and-see-strategy' when policies were changing and when the effects of the economic crisis became evident. We therefore expect that, as pension incomes decrease and care becomes more expensive, housing wealth will become a more relevant source of wealth in the financial strategies of older owner-occupiers.

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Part II

The Netherlands

6 Dutch households' strategies for old age and the role of housing wealth

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Abstract

Debates surrounding pension and care provision for the elderly echo with the term 'ageing'. Dutch households have reason to save and invest more in order to guarantee their future financial wellbeing. An increasing number of people are investing in owner-occupation, and the question is whether this is a deliberate financial strategy. This paper presents the outcomes of interviews held with a number of households as part of the EU 'Demographic Change and Housing Wealth' project. Selling the property or taking out a reverse mortgage in retirement was not necessarily a general plan, although the non-retired were able to imagine doing so. However, housing wealth might prove inadequate as people do not generally intend to repay their mortgage in full.

Keywords

Housing wealth, retirement, financial planning, the Netherlands

Compared with other European countries, 'ageing' currently has a relatively moderate impact in the Netherlands, even though debates surrounding pension and care provision for the elderly do reverberate with the term. Pension policies have changed to some extent: compared with current retirees, working generations face the prospect of less generous pension incomes, and they may also have to work for longer. Care provision for the elderly is under growing pressure: in order to support an affordable care system, the government has tightened the eligibility criteria for subsidies, introduced privatisation to the sector, and actively encourages elderly care volunteer programmes.

Responsibility for wellbeing in old age has, to some extent, been shifted to households. Maintaining a certain standard of living in retirement now means putting money aside. An important source of wealth can be found in the bricks and mortar of owner-occupied property. A growing proportion of Dutch households have become owner-occupiers and are consequently relatively wealthy in old age. In the past, the main advantage of owner-occupation in old age was reduced housing expenses as a result of outright ownership. Should financial need arise, owner-occupiers could sell and cash in housing equity. With the current introduction of mortgage-equity withdrawal products, housing wealth is now an easily accessible source of wealth. Therefore, the suggestion is that housing wealth could become increasingly important for households' financial strategies for old age.

However, research has indicated that many people are uninterested in or unwilling to consume their housing assets. This is firstly because they regard them as a nest egg that should only be cashed in in an emergency. Another rea-

son is that people would like to bequeath their housing wealth to their children. There would accordingly be differences between people with children and those without. Finally, the low housing expenses associated with outright ownership would provide sufficient income security for old age, and it would not be necessary to cash in assets (Turner & Yang, 2006) (Elsinga *et al.*, 2007; Haffner, 2008).

The aim of this paper is to unravel the roots of people's behaviour in the Netherlands: how do they perceive future pension incomes and care in old age and do they have any financial plans for their future? A specific focus is on the role of housing wealth. To achieve this, we used a qualitative research approach. This study is part of the collaborative European 'Demographic Change and Housing Wealth' project. Interviews were conducted in eight countries with 30 owner-occupiers from three age groups, and with and without children. The expectation is that the pressure exerted by demographic developments on collective welfare provision for the elderly would mean that households attach great value to savings and housing wealth for their retirement plans. It is most likely that younger households attach more value to this than older households; and that those without children would be more inclined to use their savings and housing wealth than households with children. This paper presents the outcomes for the Netherlands.

6.1 Pensions, elderly care and owner-occupation in the Netherlands

Pensions in the Netherlands are generally based on two mandatory pension pillars: the state pension (*Algemene Ouderdomswet*) and occupational pension schemes. People living uninterruptedly in the Netherlands between the ages of 15 and 65 are eligible for the flat-rate state pension at age 65. Additionally, 91 percent of employees save, together with employers, in occupational pension funds (AFM, 2010). The aim is for these two pillars to save for a pension income amounting to 70 percent of the gross lifetime average income. The pension is usually 'defined benefit', which means that occupational pension funds run the investment risks, and the outcome is fixed (Van de Grift, 2009). Although not everyone manages to build up a full pension (CBS, 2008) as a result of the mandatory pension saving, poverty levels among the elderly in the Netherlands are actually relatively low (OECD, 2007). It is only the self-employed in the Netherlands who really need to plan a financial strategy themselves and actively save and invest to secure their financial wellbeing in old age. There are indications that substantial numbers of the self-employed do not do this (AFM, 2010).

Demographic changes have led to changes in the pension system. Early retirement is still widespread in the Netherlands, though it is on the decline as the Dutch government has introduced a number of fiscal disincentives.

Moreover, at the time of writing, Dutch politicians are discussing how and when to raise the formal retirement age from 65 to 67. Furthermore, pension income used to be based on final salary, but is now usually based on average lifetime income. This implies that pension incomes for many future retirees will be lower. The current economic crisis has also put the Dutch occupational pension funds under pressure. Premiums have increased and indexation stopped. It is far from clear how the economic developments and measures have affected the pension incomes for future retirees (OECD, 2009).

Apart from pensions, households' strategies are also likely to be influenced by developments in care provision for the elderly. Government policies in the Netherlands aim for the elderly to live independently for as long as possible. Elderly people in need of help will initially receive home care. There are subsidies for older people who need a housekeeper, for care services at home, for essential modifications to a dwelling, for transport costs, and, for instance, for the purchase of a wheelchair (Haffner & Elsinga, 2009). Should people require more care than they can move to special-purpose accommodation where a wide range of care services is available. Nursing homes provide the most intensive level of care (Kullberg & Ras, 2004). A household's own contribution to the costs depends on income, and not on savings or assets.

Government expenditure on elderly care has increased as a result of the ageing population. In response, the government has, to a certain extent, privatised the healthcare system with a view to improving efficiency and client choice. Eligibility criteria for public subsidies to pay for care have also been tightened. The Dutch government also encourages informal support from family members or close relatives by granting them 250 euros a year. Further, the government encourages municipalities and employers to support informal carers by giving them information, practical and financial support and more flexibility at work. However, there are worries for the future. The increasing need for voluntary care work comes at a time when more women are participating in the labour market, and when families tend to be widely dispersed (Sadiraj et al., 2009).

The reforms to the pension system and to elderly care lead to uncertainties and might have affected households' beliefs and strategies. Building up private assets would be one way for households to render themselves less vulnerable to future policy changes.

An increasing proportion of households have acquired housing assets. In 1947, only 28 percent of the housing stock was owner-occupied, and the figure 60 years later is 57 percent (WWI, 2009). However, a substantial proportion (43 percent) of the Dutch population, generally those on lower incomes, are not owner-occupiers (Mulder, 2004; Schutjens et al., 2002). The most important incentive for owner-occupation is the 100 percent deductibility of mortgage interest for income tax purposes (Haffner & Elsinga, 2009). The higher the income and the higher the mortgage, the higher the tax deduction and

Table 6.1 Actual Dutch interviewees and target quotas in brackets

Age group	With children	Without children
25 to 35 years	6 (6)	4 (4)
45 to 55 years	6 (6)	3 (4)
65 and older	8 (6)	3 (4)

hence the greater the subsidy. Accordingly, mortgage credit has become relatively cheap and mortgage repayment has become less pressing. New kinds of mortgages have evolved that delay repaying the mortgage for 30 years, while additionally the interest-only mortgage has become very popular. In 1996 only 9 percent of mortgages were of the interest-only kind, while in 2008, 48 percent of the total mortgage debt was in the form of interest-only mortgages. In other words, many owner-occupiers do not intend to repay their mortgage in full. The Dutch build up less housing equity than in the past, and consequently fewer elderly people are outright owners. It will become clear that this has an impact on the role housing wealth plays in retirement in the Netherlands.

6.2 Selected area and methodology

We interviewed 30 owner-occupiers in Delft, a medium-sized city in the west of the Netherlands. We invited some 1000 owner-occupiers from different age groups to participate in the study. We outlined the research objectives, and explained that participants would be eligible to win a 100 euro voucher. If they wished to participate they could fill in a short questionnaire and return it in a stamped-addressed envelope. About 10 percent responded positively. While it was easy to select households that met the target criteria, it was much harder to find households without children in the two older age categories (see Table 6.1).

The interviews were conducted between June and September 2009. Most took place at people's homes and lasted about two hours. The length of the interview usually depended on whether a couple or a single person was interviewed. We aimed to involve both partners if possible because discussions between partners often serve to bring crucial factors to the fore. The interviews were transcribed, and first coded in line with the general coding framework developed with the research partners. The next step was to refine the coding by analysing the specific content of the narratives for the Netherlands.

We report our findings in the following sections. As stated above, we examined households' strategies in response to the changes in pensions and elderly care provision. We specifically focus on the role of housing wealth and look at differences between age groups and between people with and without children.

6.3 Retirement strategy

6.3.1 Vignette

To explore households' financial strategies, we presented a vignette-based situation of a fictitious recently retired couple in their late 50s. The couple found it difficult to make ends meet every month and were thinking of ways to increase

their retirement income. Both were in good health, had children who had started families of their own, and they had an owner-occupied dwelling in a rural area.

The Dutch interviewees generally suggested that the couple generate income. For instance, they could find a part-time job; turn a hobby into a source of (possibly undeclared) income; capitalise on living in a rural area by running a bed and breakfast or campsite, grow and sell vegetables; do freelance work; or, which was mentioned most often by the youngest interviewees, babysit the grandchildren. Most interviewees are fairly optimistic about the variety of opportunities available for the older couple, although some observe the difficulty older people tend to have in finding a proper job. They would appear to be right, since older people who lose their jobs generally remain without work for longer than younger people (Euwals *et al.*, 2009).

Other advice included checking expenditure and receipts with a view to exploring possible ways to economise. Suggestions included buying more in the sales, buying fewer clothes, and making fewer trips. Some mention the state pension the couple will receive once they reach 65, which might alleviate their tight financial situation. The oldest interviewees in particular often think it remarkable that a couple in good health in early retirement cannot manage financially.

“So they find it more difficult to manage every month than they had anticipated. They thought they would have more. Well, they should have thought about that beforehand. They thought wrong. That’s not very clever. You should be able to sense that things will either stay the same or become slightly less manageable, so then you shouldn’t complain, and then if it is difficult for them, because they actually want more, then they have no choice but to work a bit longer and earn some extra.”

(Man, 72, living with partner, children)

Another often-heard response is for the couple to release housing equity. Selling is the most obvious way. The couple could either move to the rental sector or to cheaper owner-occupied property. Some observe that it depends on how much extra money the couple need. If they need substantially more, then they could rent. Moving to the rental sector in old age is still fairly popular in the Netherlands, but it is on the decline (Kullberg & Ras, 2004).

Although never given as a first option, taking out a new mortgage was mentioned by one in five interviewees. If the couple cannot work or economise, and are too attached to their home to move, then mortgage-equity withdrawal is seen as an opportunity to cash in some money.

6.3.2 Income in retirement

The majority of interviewees were not afraid of having too little income in old age. They participated in an occupational pension scheme, and many had

made their own arrangements. Having managed well financially so far, they found it difficult to imagine that their situation could deteriorate in retirement. To some extent, the fact that pension incomes are related to income from work justifies this view. Therefore, the only real risk was unemployment, and ceasing to save automatically for retirement, which they regarded as unlikely events.

The youngest group relied to a lesser extent on state and occupational pensions. Some did not count on a state pension, or they thought it would not amount to much at all by the time they retire. Some had less than complete confidence in occupational pension funds. The crisis has affected the solvency position of the funds, and the young households wondered if it would not be better for them to take responsibility for their own pension savings. However, despite their doubts, the youngest group appeared more confident about the sufficiency of their future pension income than the 45-55 group. The youngest are positive about their future, about their jobs and incomes, and their opportunity to build up their asset portfolio.

Do you think your income in old age will be adequate?

“Yes, I think so. I assume that if I can keep on working and still have a good career, then there will be sufficient money in the funds for my needs. And as an academic I also hope to earn well in future.”

(Couple, 27 and 26)

Most plan to start saving at some time in the future, as retirement still seems far away. Interestingly, some who were unable to save mentioned that the prospect of an inheritance gave them a sense of financial security for old age. A few young people on relatively high incomes had already started putting money aside for their old age. Housing also played an important role in their financial plans. They hoped not to restrict their housing investment to the owner-occupied dwelling, but were interested in buying property to let.

Interviewees in the 45-55 group were worried about retirement age, and particularly those who found their jobs difficult. Interviewees in this age group seemed to experience a lack of control. The government or employer would most likely decide when they would retire. They did not start alternative savings plans to counteract changes in policy. The people who are less certain about their future retirement income tend to be in the 45-55 age group, have a fairly tight financial situation, or to be self-employed. The uncertainty for the interviewees with tight finances was their vulnerability to any small financial cutback. The self-employed acknowledged the risks surrounding their pensions. Some managed to discipline themselves to save, but others did not. As long as they were still working they were able to view the risks without alarm. As they approached retirement, however, a lack of pension savings made them more apprehensive. Retired former self-employed

people saw the crisis and its effects on stock markets as a cause for concern for their pension capital.

Almost everyone in the oldest group had retired early and the pension income was viewed as sufficient. Around half said it was a bit more than their previous income and the other half said it was a bit less. The crisis has had a negative impact on pension incomes, as indexation came to an end. Nevertheless, this group said they had faith in the government and in occupational pension funds, and they expected neither a severe nor a lasting effect on their pension incomes. They had paid for so many years, and accordingly they expected to be treated reasonably.

One retired household found it difficult to manage financially every month. One reason was a reduced state pension because the couple had lived abroad temporarily. Additionally, the man had withdrawn from the occupational pension scheme sometime during his career because he preferred to have this money in the bank. This is not something that often happens in the Netherlands. About 9 percent of employees are outside an occupational pension scheme, and in most cases this is only temporary (AFM, 2010).

6.4 Care

6.4.1 Vignette

Interviewees were presented with a vignette-based scenario and asked what they thought should happen with an older lady living alone in her owner-occupied property with garden. She was no longer able to manage on her own because of her deteriorating health. She has two children who help her regularly. The question is who should take care of her.

In the first place, interviewees considered calling on professional help, with the type of help depending on her state of health. The first option was for homecare services. If that was not enough, then she could move to accommodation with access to a wide range of care services. A final option would be for her to move to an old people's home or a nursing home. Most interviewees emphasised that older people should live independently in their own homes for as long as possible. The role of children is to help arrange care services and to ensure that parents end up living where their care needs are provided for. Children should also visit a parent regularly. Adult children have their own busy lives, with careers and families, and are hardly in a position to look after their parents.

“I would recommend her to find out whether she can get care services at home. She's probably very happy in her home. [...] Most likely she can get some financial support from the local council. [...] Perhaps she can try to find somewhere to live that is suitable for

someone of her age, but she should stay away from a nursing home as long as possible.”
(Man, single, 52, no children)

6.4.2 Care expectations

When asked about their expectations if they themselves, rather than the fictitious old lady, became frail, the interviewees found the prospect rather daunting. They explained that they would try to deal with the situation together with their partner. Surprisingly, over half the interviewees stated that their first port of call would be their children.

“I can’t imagine one of my children ever asking me to go and live with them. But I do actually think that it is something that’s coming back, asking your parents to come and live with you [...] Yes, well if you can actually stand the idea of your parents living in your home, because, yes you have to be able to put up with it, yes, in that case it’s of course the ideal solution.”

(Single man, 48, children)

Approximately three out of four interviewees expressed doubts about the quality and availability of professional care in old age by the time they might need it. The youngest group were more optimistic than the 45-55 group. The first plausible reason is that the latter are closer to old age and therefore consider the prospect of illness as a distinct possibility, and the idea of depending on caregivers is more daunting. Secondly, interviewees mentioned the burden that an ageing population would impose on the care system. The 45-55 group predicted that by the time they themselves needed care, too many other people would also be requiring help. Some remarked that they would only really want to rely on the care that would be provided, as there was no alternative. Others considered moving to a suitable apartment before they had health problems. Should they then need help, the necessary services would be readily available. Others thought of living together with a group of friends or other elderly people in a private home. They could help each other out and could also buy health services together.

The recent introduction of privatisation in the healthcare system worried interviewees, particularly regarding the effects on care for the elderly. The push for efficiency would have a negative effect on the quality of care, as caregivers would be working under serious time pressure. Consequently, some interviewees saw a trend towards more volunteer care, involving either family members or people in the neighbourhood. The oldest interviewees did not mention this as an option. They rely more on care facilities and expressed a strong aversion to relying on their children.

6.4.3 Cost of elderly care

Most households have only a vague idea about who would pay for various sorts of care in old age. All but one interviewee thought they would have to pay at least for some of the care themselves from their retirement income or in some cases from their savings and assets. Some assumed that owner-occupiers would be forced to 'eat up' housing equity once they had to move to an old people's home. In fact, assets and savings are no longer taken into account in calculating the personal contribution to the costs. This was common practice in the past, and has been a topic of recent debate (VWS, 2009).

The majority also expected the government to pay for care in old age. One view is that if costs were exorbitant, then the government would pay. Some believed that everybody should be eligible for elderly care. Others thought that the government would provide minimum cover. The role of the government seemed less important in the responses of the 45-55 group.

More than half the interviewees stated that their healthcare insurance would cover some of the expenses for homecare services. However, this is a fallacy. Some imagined that their insurance would pay for basic care, whereas others thought it would cover only unexpected major healthcare expenses, such as hospital and medication, but not homecare services or the old people's home. The latter view is correct.

Six interviewees, mostly from the oldest group, thought they would have to take out additional insurance to cover care costs in old age, including for homecare services. Family did not play a role. Children would call regularly, visit and arrange things, but not pay for care.

Many people have little awareness of how care is actually financed. Interviewees are more concerned about the availability and quality of elderly care provision. The 45-55 group in particular envisage capacity problems in elderly care by the time they themselves might need it. Children may play a more important role in care giving, and those who can afford it imagine they would turn to private care facilities. Housing capital is not given as a potential source of wealth to be used for professional care.

6.5 Role of housing equity

6.5.1 Interest-only mortgages

As mentioned above, many Dutch people finance owner-occupation partly with interest-only mortgages. Increasing numbers of older people are tending to keep an interest-only mortgage into old age (Van der Schors et al., 2007). Passing on housing wealth to the next generation has become less important, and the housing expenses are easy to manage.

Table 6.2 Overview of housing equity of Dutch interviewees in three different age groups

	25 to 35 years	45 to 55 years	65 and older
Negative equity	4	1	0
€ 0-75,000	4	2	2
€ 75,001-150,000	2	3	2
€ 150,001-300,000	0	1	3
More than € 300,000	0	2	4

Yet there are worries about the consequences of the interest-only mortgages for those whose pension incomes will be lower than expected (AFM, 2010). Tax benefits end after thirty years of mortgage, and housing expenses increase accordingly. And even if the 30-year mortgage term has not expired, the lower income tax bracket in retirement will mean an increase in housing expenses. Table 6.2 shows roughly estimated amounts of housing equity for the three age groups. Negative equity is common among young people. The amount varies for the 45-55 group. No-one in this group is an outright owner, and some still have a very high mortgage debt. Finally, many in the oldest group have a substantial amount of housing equity. Yet only three are outright owners.

6.5.2 Importance of housing equity in retirement

The question as to whether the owner-occupied dwelling is or will be of financial importance in retirement is a difficult one. One third of the interviewees do not know what to answer and stated that they had never thought about the dwelling in such a way. The older interviewees tended to disagree. However, when cued about the lower housing expenses, most agreed it was pleasant. Others said this did not apply to them, and that they still had substantial mortgages. About half in the 25-35 and the 45-55 groups were referring to their interest-only mortgage. They did not plan to repay their mortgage in full, so they did not expect to reduce their housing expenses. Research has indicated that actually 44 percent of people who recently took out an interest-only mortgage are unaware of the fact that at the end of the mortgage term there will still be a mortgage debt (DNB & AFM, September 2009).

Three households had concrete plans to move house in retirement to cash in housing equity. First household on a relatively low income wished to free up equity during retirement to ease the financial situation, and planned to move to the rental sector. Two self-employed interviewees in the 45-55 group planned to sell the dwelling in retirement to cash in equity.

Man: "Yes, the house is our nest egg. It gives us the luxury to do the things we would like to do. It's the icing on the cake. We'll sell the house, because what would the two of us do with it? The house is a lot of work, there's six bedrooms... It's perfect with children around, and when family come to stay. But at some point it'll be too big for us."

(Couple, man is self-employed, both 45, children living at home)

The majority had no actual plans to cash in housing equity in old age, but after prompting many could imagine downsizing, or moving to the rental sector. Interestingly, almost all the 45-55 group could imagine doing so.

A former self-employed interviewee in the oldest group had downsized to cash in some housing equity. Another interviewee needed to move for family reasons. He received part of the housing equity in cash, which he regarded as a stroke of luck. Some households had moved to an apartment because they found it easier not having to cope with stairs, and there was also much less maintenance. Some did not want to move because they were really attached to their home. They could only imagine moving if they got very old and perhaps ill and in need of care; if maintenance became too much of a hassle; or if a partner passed away. This is in line with other research findings. The Dutch owner-occupiers are the least likely group in the Netherlands to move house. And if they do move, it is often for health reasons, and they also tend to be single households (Kullberg & Ras, 2004).

The majority of interviewees regarded a reverse mortgage as an unattractive option. It would force older people to deal with the complexities and risks of mortgages. The mortgage debt could increase rapidly, and consequently people could possibly get into difficulties. Interviewees made an analogy with renting. People with a reverse mortgage would slowly go back to renting their house, but now from the bank instead of a landlord. They found this an unpleasant prospect. Moreover, interviewees tended to distrust banks, or these types of mortgage products. Interestingly, the youngest group mentioned distrust the most frequently, but could also contemplate using this kind of product. In this group some interviewees doubted whether they would have their mortgages repaid by that time. The oldest group thought mortgage-equity release would imply 'excessive spending'. The current elderly have a reasonable income, so why would they want even more? Their norm is that one should not consume housing wealth. Yet the exceptional case of the one older household without a full state or occupational pension did consider mortgage-equity withdrawal as an option. They were, however, dismayed that nothing would be left for the children.

6.5.3 Why not consume housing equity?

We asked why older people do not spend housing equity as much as they could. Interviewees were keen to explain and came up with a wide variety of explanations. First and foremost, housing equity would be regarded as precautionary savings. Older people would not wish to spend equity since they never know what might happen in later life, how old they would become, and what costs they would still face in the future. The fact that older people may have lived through the war is likely to have made them more careful with their money.

"[Older people do not spend housing equity] Because they don't know how long they'll live. They don't know if they'll have a lengthy illness or if they will pass away in their sleep

at 86. As long as there's uncertainty about how long you'll live and how the last years of your life will be... You just want to have something in reserve."

(Single woman, 32)

Interviewees sometimes referred to 'Calvinism', which is a label commonly applied to Dutch financial behaviour. Calvinism includes such wisdom as: 'Save before spending', 'He who saves has something' i.e. a penny saved is a penny earned, and 'Do not spend money like water'. The older generation was thought to behave in line with this wisdom.

Furthermore, older people would regard the owner-occupied dwelling as a pleasant roof over their heads, rather than as an investment from which they could cash in equity. Older people would also be more attached to where they live than younger people and would therefore be reluctant to move.

Some say they enjoy 'having' money, and that it gives them a certain element of pride. One could think of a thousand ways to spend it, but still not do so and feel great. Furthermore, the idea alone that when one passes away, the children will benefit from this wealth, is sufficient to give the elderly a feeling of satisfaction. On the whole, the importance of a legacy did not seem to be a crucial explanatory factor.

There were indications that younger generations would spend their housing equity more readily than the current older generation. The young are more familiar with mortgages and financial products and they regard the owner-occupied dwelling more as an investment. The question is to what extent is this an age or a cohort effect. To some extent we might see a shift in the future, with current working generations being more willing to consume their housing wealth in retirement than the present retired generation. The relevance of having or not having children and the importance of a legacy did not come to the fore in the interviews.

6.6 Conclusions

The aim of this study was to unravel the roots of people's behaviour in the Netherlands: how do they perceive future pension incomes and care in old age and do they have any financial plans for their future? A specific focus was on the role of housing equity. The expectation was that the pressure exerted by demographic developments on collective welfare provision for the elderly would mean that households attach considerable value to savings, housing wealth and family for their retirement plans. It is most likely that younger households attach more value to this than older households; and those households without children would be more inclined to use their savings and housing wealth than households with children.

Although ageing is an issue in the Netherlands and prevalent in policy

debate, it is still perceived as less urgent than in other European countries. The pension system is under pressure. However, because of a strong second pension pillar, i.e. occupational pensions, the pension system is still relatively sustainable in the near future. Consequently, the importance of savings and investments might be somewhat limited. Nevertheless, some concern about pension incomes and future elderly care provision was expressed, and some differences between age groups could be observed.

We found that those aged 65 and over, who had taken early retirement, have a reasonable level of income and have faith in the government and occupational pension funds. They made contributions throughout their working lives, and hence they expect to be reasonably treated by the pension providers. The oldest group also relies on regular care facilities for the elderly and would not want to rely on their children. The working generations feel more insecure, both about pensions and about the quality and availability of care. The 25-35 group are sceptical about occupational pensions and about receiving a full state pension. The 45-55 group are worried about the retirement age being raised; and they expect to need care at a time when many others need it as well, and consequently they are worried about the availability and quality of care. Some foresee a need simply to accept the situation and resort to mainstream care facilities, while others thought the children might play a more important role. Finally, those on high incomes expected they would be able to pay for private care facilities. The youngest group expected that care would be available for them, and that the quality would be reasonable. Some expected children to be involved in caring for their parents. Affordability of care was not a cause for concern for any age group.

We expected younger households to attach greater value to savings and housing assets than older households. Indeed, the oldest generation appeared to need savings and housing assets less than the two younger generations. However, of the two younger generations, it seems that those closer to retirement, i.e. the 45-55 group, consider savings and housing assets more relevant and important than their younger counterparts. Yet the 45-55 group seemed to accept recent policy changes and did not respond by saving or investing more. Retirement is still too far off for most of the youngest group to seriously start building an asset portfolio. They expect to have plenty of opportunity in the future, as their incomes would increase and wealth would grow. A few on relatively high incomes had already started saving and planning.

For all age groups the owner-occupied dwelling was not a primary source of wealth that interviewees expected to take advantage of in old age to add to the pension income or to help pay for care. Many expected they would not have fully repaid their mortgage by the time they retire. Nevertheless, the oldest group regarded housing wealth as an emergency fund; the 45-55 group seemed willing to cash in housing equity; and finally, the few young people who saved and invested for retirement, regarded housing as an impor-

tant asset in their portfolio. In addition to the owner-occupied real estate, they hoped to have invested in a second property by that time. In the context of care needs, it appeared that the owner-occupied dwelling is much more important as a 'home' to which older people are strongly attached.

Having or not having children seemed to have only a minor impact on people's willingness to consume savings and housing assets. Those without children could more easily imagine consuming their housing wealth. Yet those with children argued that the children have prosperous lives and prospects, and so there is no great urgency to leave them a large sum of money. Still, people with children and those without generally did not plan consuming their housing equity.

Mortgage-equity withdrawal was expected to have considerable potential for households to consume their housing assets. We find that the majority are averse to these types of financial products. However, a substantial number of interviewees say that mortgage-equity withdrawal might be worth considering if financial problems arise in old age, there are no job prospects, further economies are infeasible, or they are unwilling to move from a home they are attached to.

Generally speaking, the differences between the age groups, and between people with and without children, appeared smaller than the differences between employees and the self-employed, and between people on high and low incomes. The self-employed and people on relatively low incomes tended to expect to consume their housing equity more than employees and people on high incomes. The numbers of self-employed have increased in the Netherlands, many of whom have been severely hit by the economic crisis. Many also appear not to have saved enough for retirement (AFM, 2010). The low income households in the Netherlands are usually housed in the rental sector. However, as an increasing share of households become owner-occupiers, more people on lower incomes will move to the owner-occupied sector. In future, housing wealth might become more relevant as a source of wealth in retirement. However, it might also be the case that the interest-only mortgage loans that survive into retirement have a negative impact on retirees with low pension incomes.

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7 Pension expectations and the relevance of housing wealth

Janneke Toussaint & Marja Elsinga (submitted to an academic journal).

Abstract

In the Netherlands, pensions are coming under increasing pressure and the share of owner-occupation is growing. It has been suggested that these two developments could be related. Namely, owner-occupation can be considered a financial strategy for old age: while repaying their mortgage debt, owner-occupiers build housing wealth. Especially for younger age groups, who appear to be most pessimistic about public pension income in the future, this housing wealth could become highly relevant in old age. The analyses presented here are based on the outcomes of a telephone survey (n = 664), the findings of which are twofold. On the one hand, they suggest that expectations about public pensions are indeed related to intentions to enter owner-occupation. Moreover, people between the ages of 50 and 64 years, who have lower incomes and cannot rely fully on an occupational pension, expect that owner-occupancy will be financially important for them in old age. On the other hand, we find that the households who are most likely to need this resource – those who have lower incomes and are insecure about their occupational pensions – are typically those who are least likely to have an actual intention to enter owner-occupation. In addition, several other features of owner-occupation in the Netherlands are shown to have serious implications for policy.

Keywords

Pensions, housing wealth, ageing, housing, financial planning, the Netherlands

7.1 Introduction

Becoming an owner-occupier can be considered a voluntary saving strategy for old age: it is a way to redistribute income over the life cycle. Most young households need to save for a deposit in order to be able to buy a dwelling. They then finance the remainder with a mortgage with high monthly mortgage expenses during the first period as owner-occupiers. However, as the owner-occupiers age, their mortgage debt gradually shrinks and housing expenses decrease. In retirement, most owner-occupiers are outright owners, meaning that they no longer have mortgage expenses and have substantial housing wealth. If the going were to get tough, they could cash in their housing wealth by selling or by mortgage-equity release. Consequently, in contrast to tenants, owner-occupiers have a substantial financial buffer for contingencies during retirement.

Demographic change, in particular the ageing of the population, puts pressure on pension systems, especially the affordability of public pensions.

This can lead governments to become less generous with public pensions or increase the retirement age to safeguard this part of the pension system for the future. Although the division of responsibilities in pension systems is more complex than a simple choice of either state or household (Barr, 2006; Frericks, 2010), in the literature these developments often lead to the idea that owner-occupation might become increasingly important for individual households in old age (Castles, 2005; Doling & Horsewood, 2005; Groves et al., 2007; Kemeny, 2005).

Accordingly, it has been suggested that in countries where the owner-occupation rate has been traditionally low, such as in Sweden and the Netherlands, the rate would start to increase due to changes in the pension system (Castles, 2005; Kemeny, 2005). Hence, pension and housing systems would become increasingly interrelated. As in other European countries, the ageing population is indeed having an impact on the pension system in the Netherlands. Since the 1970s, the birth rate has decreased and life expectancy increased (Kakes & Broeders, 2006). In 2010, a large part of the baby-boomer generation, born in the years after the Second World War, began to retire. The resulting pressure on the pension system is expected to reach a peak in 2030, after which developments are still uncertain. Parallel to these developments, the rate of owner-occupation has been increasing. Younger cohorts are entering owner-occupation at a younger age than older cohorts have done in the past. In 2030, when the divide in the population between young and old is expected to have the most unfavourable effects on the affordability of pensions, most of the elderly will be owner-occupiers (Kullberg & Ras, 2004).

The central aim of this paper is to investigate whether developments in the Dutch pension and housing systems could be related. Are Dutch households becoming owner-occupiers in reaction to shifts in pension responsibilities? And for whom does housing wealth play a role in retirement planning? In this paper, we first set out the theory on the relationship between pensions and housing wealth. Second, we describe the current state of the Dutch pension and housing systems. Third, we explore the expectations about and perceptions of pensions and owner-occupation in different age groups based on the outcomes of a telephone survey conducted in the Netherlands in May 2008 ($n = 664$).

7.2 Pension expectations and owner-occupation in theory

In the 1980s, sociologist Jim Kemeny (1981) theorised that the income redistributive effect of owner-occupation, as described in the introduction to this paper, could create a symbiotic relationship between housing and welfare. Kemeny observed that rates of owner-occupation were high in countries with low welfare provision (Australia, the US and New Zealand), while the share

of owner-occupiers was much lower in countries where welfare provision was generous (the Netherlands, Sweden and West Germany).

Castles (1998) confirmed this relationship empirically and spoke of a 'really big trade-off between welfare and housing'. In countries with high rates of owner-occupation, the purchase of a dwelling results in reduced housing expenses and hence a higher disposable income in comparison to tenants. One of his explanations for the relationship was that, if public welfare provision is low, households are more actively involved in financial planning and are more inclined to choose owner-occupation as part of their financial strategy for retirement.

In later work, Kemeny (2005) continued this line of reasoning. He observed that in countries where the rental sector has traditionally been large and welfare provision generous (Sweden and the Netherlands), changes are taking place in the fields of both housing and old-age welfare provision. In particular, governments have made cutbacks in welfare provisions and there has been a simultaneous shift towards owner-occupation. Kemeny questions whether the growth of owner-occupation in these countries could be related to the changes in welfare provisions for the elderly. This theoretical possibility is the main driver of this paper. Kemeny also discusses both public pension incomes as well as other types of old-age welfare provision such as old-age care; however, in this paper the focus is specifically on the interplay between pensions and housing.

Three hypotheses that derive from Kemeny's work are: (1) if public pensions become less generous, households perceive the need to undertake voluntary saving for pension or asset building; (2) households wish to enter owner-occupation in reaction to changes in the public pension system; (3) due to changes in public pensions, households perceive the purchase of a dwelling as part of their financial plan for old age: they believe it will reduce their housing expenses, or think of it as a nest egg that in the case of financial need could be cashed in through selling or mortgage-equity release.

Kemeny's theory on the relationship between old-age welfare provision and owner-occupation has been both supported and criticised. Doling and Horsewood (2003) have found evidence for a relationship between early retirement and housing wealth, thus supporting Kemeny's idea that owner-occupation might become more crucial for financial wellbeing in old age in those European countries that have relatively low rates of owner-occupation (Doling & Horsewood, 2005). Castles also supports this view (Castles, 2005). One point of criticism is that Kemeny overstates the causal relationship between old-age welfare provision and the growth of owner-occupation (Malpass, 2008). It is argued that there are other more crucial reasons for owner-occupation than reforms to pension systems, with a larger set of factors needing to be taken into account. Institutional contexts, in terms of housing markets, housing policy and mortgage markets, differ considerably. Moreover, other forms

of voluntary pension saving could be more relevant than the accumulation of housing wealth (Boelhouwer & van der Heijden, 2005).

In addition, literature on the psychology of saving claims that households most typically do not have long-term time horizons when it comes to saving and financial planning. People differ, and time horizons differ for different saving purposes. Households with higher incomes are generally more successful savers than households with low incomes. Furthermore, gender matters: women often appear to save and plan less than men (Hershey *et al.*, 2007; Lusardi & Mitchell, 2007). In particular, saving for retirement has proven to be a difficult task, as people often regard retirement as too far into the future for them to be genuinely concerned about. This implies that if retirement is beyond people's time horizon, expectations about public pensions might not have an impact on people's voluntary pension saving strategies. This suggests that the choice of owner-occupation by the young is not self-evidently related to public pension expectations.

In the following section, assuming that various elements of the institutional setting matter for households pension saving strategies and the choice of entering owner-occupation or not, we set out the developments in the Dutch pension and housing systems (Boelhouwer & van der Heijden, 2005). We attempt to provide an understanding of the changes in both systems and loosely seek a relationship between the two, as is assumed by Kemeny. Following this, we examine whether there is a relationship between Dutch household pension expectations, the wish to enter owner-occupation and the perception of the role of owner-occupation in old age.

7.3 The Netherlands: pensions and housing

7.3.1 Pension system

Compared to systems in other European countries, the current Dutch pension system seems to offer security for the elderly. This can be seen in Table 7.1, in which several typical indicators are presented. The net replacement rate is defined as net individual pension entitlements divided by net pre-retirement earnings (OECD, 2007). In the Netherlands, retirees – who were average earners – received a net 96.8 percent of their net pre-retirement income. This is high compared to the replacement rates in other countries. The at-risk-of-poverty rate for pensioners is defined as the share of people who are 65 years and older with an income, after social transfers, below the at-risk-of-poverty threshold, which is set at 60 percent of the national median income

Table 7.1 Pension systems in 6 European countries

	Net replacement rate for average earner (2004)	At-risk-of-poverty rate for pensioners (2007)	Old-age dependency ratio for		Size of the pension pillars (share of total pension income) (2001)		
			2008	2030	First pillar	Second pillar	Third pillar
Netherlands	96.8	9	21.84	40.00	50	40	10
Belgium	63.0	20	25.80	37.58	-	-	-
France	63.1	11	25.33	39.02	79	6	15
Germany	58.0	18	30.29	46.23	85	5	10
Sweden	64.0	11	26.66	37.43	-	-	-
United Kingdom	41.1	31	24.27	33.23	45	13	42

Sources: OECD (2007); Eurostat (2009); Giannakouris (2009); Börsch-Supan (2004)

(Eurostat)¹.

In the Netherlands, this share is relatively low, at 9 percent. The old-age dependency ratio is an indicator of the affordability of public pensions in the future (Giannakouris, 2009). It is defined as the ratio of people who are 65 years and older to the number of people between 15 and 65 years old. The higher this ratio, the more pressure there is on affordability, as fewer people are paying for more retirees. The old-age dependency ratio in the Netherlands is expected to almost double between 2008 and 2030. This pressure is similar to that in other countries (see Table 7.1).

The broad variety of pension systems is often depicted in terms of three pension pillars (see Table 7.1). To explain briefly, the first pension pillar generally refers to public or state pensions, which are usually compulsory and financed on a pay-as-you-go basis. This means that the working population pays for the retirees. The second pension pillar refers to mandatory personal pension savings, which are usually publicly organised and fund-based. Finally, the third pillar refers to voluntary pension savings, which consist of household savings and assets (Barr, 2006).

The Dutch pension system is based primarily on the first two pillars: 50 percent of pension income is derived from public pensions (Algemene Ouderdomswet) and 40 percent from occupational pensions (see Table 7.1). The Dutch public pension is a flat-rate public scheme. All Dutch people who have lived in the Netherlands between the ages of 15 and 65 receive this public pension beginning at the age of 65. The second important pillar consists of occupational pensions which are related to earnings. For 91 percent of the employees in the Netherlands, the occupational pension is connected to their labour contract (Van de Grift, 2009). Each month, part of the salary automatically goes into a pension fund; employers often pay an even larger share. Occupational pensions play a more important role in the Netherlands than they do in many other European countries. With more than 90 percent of the working population participating in occupational pensions, a huge amount of money is stored in these funds (OECD, 2009). Importantly, the self-employed are not part of this mandatory occupational pension saving scheme and must

¹ In Eurostat, incomes are transformed into 'equivalised disposable incomes'. This concept enables comparison of outcomes between the countries.

arrange their own voluntary pension savings. Recent research has estimated that half of all freelancers do not make these voluntary arrangements (AFM, 2010).

The third pillar, which consists of individual financial resources, is least important in the Netherlands, comprising 10 percent of all pension income (Börsch-Supan, 2004). These resources usually consist of annuity or single-premium insurance policies, which are often fiscally subsidised accounts (Alessie & Kapteyn, 2001; Kakes & Broeders, 2006). Households with higher incomes and self-employed people are particularly likely to hold such policies. It has been estimated that 35 percent of all working people in the Netherlands have made third-pillar pension arrangements (Van Els *et al.*, 2003).

Because the Dutch pension system is distributed over various pillars, it is relatively sustainable for the future. Nevertheless, the impact of the ageing population on the public pension system remains a topic of debate and concern, and the occupational pension pillar has also become unstable as a consequence of economic developments. A number of adjustments have already been made in response to the ageing population, which shifts pension responsibilities and risks towards individual households. For example, in order to encourage the labour-market participation of older workers, fiscal arrangements that had made saving for early retirement attractive were changed in 2006. Another reform concerns the determination of pension income, which used to be based on the last earned income but for most Dutch employees is now based on average lifetime earnings. The implication is that the present working generation will receive less than the retired generation is currently receiving.

More recently, unfavourable economic developments, low interest rates and poorly performing stock markets have reduced the value of capital stored in occupational pension funds. In the Netherlands, the equity portfolios of these funds have had considerable exposure to American markets. This has diminished solvency, which has been below requirements for some time (OECD, 2009). In response, many occupational pensions have ceased to be indexed, meaning that pension entitlements have not been adjusted for inflation. Various funds have raised their pension premiums, and a number of companies have paid additional lump-sum contributions to improve their solvency situation. Consequently, retirement age and the level of pension income have come under discussion. At the time of writing, the government had proposed raising the retirement age to 66 in 2020 and 67 in 2025. The impact of both ageing and the financial crisis on the affordability of future pensions has generated a continuing debate about the extent to which younger generations will be negatively affected and how this might be prevented (Houben & Schrijvers, 2006; Teulings & de Vries, 2006; Vos & Pikaart, 2007).

Finally, when it comes to the psychology of pension saving in the Netherlands, various studies have found that the Dutch rely on the mandatory ele-

Table 7.2 Tenure structure in 6 European countries

	Social rental	Private rental	Cooperative housing	Owner-occupation
Netherlands	35	11		54
Belgium	6	24		70
France	17	21		56
Germany	5	53		42
Sweden	25	20	15	40
United Kingdom	20	10		70

Sources: OSIS country studies; Haffner *et al.*, 2009 (for France)

ments of the pension system. The Dutch are risk averse and are reluctant to take control of their retirement saving strategy (Van Rooij *et al.*, 2005). Saving motives appear generally not to be related to pension saving (Alessie & Kapteyn, 2001). The majority of employees are not aware of the adjustments in the pension system and consequently have overly high expectations about the level of pension income. Divorce is another factor that Dutch households do not take into account. Many Dutch women are not financially independent; they work part-time or not at all and do not save for their pension (AFM, 2010). From a study (Hershey *et al.*, 2007) which compared the retirement planning tendencies of Dutch and American workers, it appeared that the time horizon of the Dutch is relatively short and age appears an important predictor with respect retirement goals and plans. Hence, the closer Dutch workers come to retirement age, the clearer are their retirement plans.

7.3.2 Housing system

An increasing number of Dutch households are investing in owner-occupation. At the same time, from a European perspective, one remarkable feature of the Dutch housing system is its large social rental sector (see Table 7.2). After the Second World War, Dutch housing policy was primarily directed to the social rental sector. The Dutch government used the sector to solve the severe housing shortage and to guarantee affordable, independent and good-quality housing for all Dutch households. Rent increases were regulated and tenants protected against eviction by law, with these conditions still in effect today. This accounts for the large proportion of tenants in social rental housing, as well as for those in the private rental sector. Low-income tenants are further eligible for a housing allowance.

Once the most severe housing shortage had been addressed in the 1950s, the encouragement of owner-occupation became another aim of housing policy. Owner-occupation was expected to contribute to independence and responsibility, thereby improving family life and societal stability. Additionally, it was expected that it would encourage people to save (Elsinga, 1995). Thus, asset building was considered an important reason for the government to encourage households to buy their homes. A further shift in policy directives took place in the 1980s. The large expenditure on social rental housing was no longer regarded as acceptable in Dutch politics and the growth of owner-occupation became an even more important aim. Nonetheless, no explicit link with old-age welfare policies, or more specifically pensions, has

yet been made in the Netherlands. Both types of tenure have been supported by the government, and free choice has been promoted in policy documents.

In this context, policy – particularly fiscal policy – has strongly encouraged people to enter owner-occupation. Mortgage interest payments can be fully subtracted from pre-tax income. The marginal tax rate is higher for those with higher incomes, and hence more favourable for them with respect to their mortgage interest tax deduction. For example, those with the highest marginal tax rate receive 52 percent of their mortgage interest back from the government through income tax. This fiscal policy partly explains why income has become the major factor underlying differences in the likelihood of owner-occupation.

In addition to changes in housing policy, the deregulation of the European financial market has brought owner-occupation within reach of an increasing share of households. Interest rates have dropped and mortgage credit has become more accessible. Moreover, developments in the labour market (e.g. income growth, job security and the increase in the numbers of two-earner households) have affected the capacity of households to borrow. Another important encouraging factor has been the increase in housing prices, as people believe they can make a profit (Boelhouwer, 2002; Dieleman & Everaers, 1994).

The share of the total housing stock constituted by owner-occupation was 45 percent in 1990, increasing to 57 percent in 2008 (WWI, 2009). Younger households are more likely to be owner-occupiers than those from the oldest generation. In addition, younger cohorts appear to become owner-occupiers at an earlier stage in life than the older cohorts (Mulder, 2004; Van der Schors *et al.*, 2007). Although many factors have been mentioned when explaining the growth in owner-occupation, the growing insecurity about pensions has yet to be discussed.

Due to owner-occupation and increased housing prices, Dutch people between 55 and 64 years old have become the wealthiest age group in the Netherlands (Haffner, 2005). Housing assets make up a significant part of the portfolios of Dutch households. In total, bank and savings accounts, investment funds, capital insurance, annuities and single-premium insurance policies make up 20 percent of the total assets of households. Housing investment represents 75 percent of all household assets (DNB, 2008).

Although an increasing share of households are disposing of housing wealth, Dutch owner-occupiers are tending to build less housing wealth, relative to the value of their dwelling, than they did in the past (Van der Schors *et al.*, 2007). The amount of housing wealth they have accrued is also lower in comparison with other countries. Table 7.3 shows the relatively high level of mortgage debt relative to the gross domestic product (GDP) in the Netherlands (EMF, 2007). The ratio of the loan to the value of the dwelling (LTV) for recent buyers is also high (Elsinga *et al.*, 2007). First-time buyers in the

Table 7.3 Characteristics of the mortgage market in 6 European countries

	Mortgage debt to GDP % (2007)	LTV recent buyers (2001)	Outright owners in age group 65 and older % (2007)
Netherlands	100.0	112	21
Belgium	36.8	80-85	76
France	34.9	-	82
Germany	47.7	70	49
Sweden	57.0	90-100	36
United Kingdom	86.3	70	71

Sources: EMF (2007); Elsinga *et al.* (2007); Eurofound (2009)

Netherlands do not need to save for a deposit before actually buying a house, and they can also finance all the extra costs (transfer tax, notary, real estate agent) with the mortgage. Consequently, the loan can exceed the value of the dwelling. Finally, it can be seen that relatively few current Dutch retirees are outright owners (Eurofound, 2009).

The trend in indebtedness has been attributed to the fiscal treatment of mortgage loans in the Netherlands, innovations in the mortgage market, rising house prices and a decreasing desire to pass wealth on to the next generation (Van der Schors *et al.*, 2007). Due to fiscal subsidies, mortgage loans have become relatively inexpensive. The forms of mortgage have also been adapted to fiscal policies. Types of mortgages have emerged that delay repayment to maximally profit from the mortgage-interest tax deduction. Additionally, interest-only mortgages have become increasingly popular, which mortgagees have no intention at all to repay. In 1996 only 9 percent of all mortgage debt in the Netherlands was based on interest-only mortgages; in 2008 this type of loan accounted for 48 percent of all mortgages. Of the households that took out new mortgages, 69 percent took out interest-only mortgages. Research indicates that about half are not aware that they are not building housing wealth and will have a remaining debt at the end of the mortgage term (Zijlstra, 2009).

These borrowing practices are not in line with Kemeny's theoretical reasoning about the trade-off between welfare and housing. He based his idea of the symbiotic relationship on the fact that owner-occupation has an income redistributive effect: households save for a deposit, then enter owner-occupation with a large mortgage burden that shrinks gradually as one becomes older and repays the mortgage, and ultimately disappears completely in retirement.

7.4 Household expectations: research approach

We will now explore the expectations of three age groups (20 to 34 years old, 35 to 49 and 50 to 64) in the Netherlands regarding future pensions and the link to owner-occupation. In May 2008, 664 owner-occupiers and tenants were questioned by means of a telephone survey. There was an equal number of respondents from each age group. The sample stems from a database that is representative of the population of the Netherlands. Of the people contacted, 51 percent agreed to participate in the telephone survey.

The questionnaire consisted of three main parts, which investigated the

following respectively: (a) perceptions of owner-occupation and renting; (b) financial strategies with respect to retirement; and (c) perceptions and use of owner-occupation as a financial resource. Furthermore, there were questions about housing finance and household characteristics.

In this study, we closely follow the reasoning of Kemeny as set out above. The following three hypotheses have been derived from his theory.

If households expect public pension provision to become less generous in the future:

1. they are more likely to expect income from voluntary pension savings
2. they are more likely to consider entering owner-occupation
3. they are more likely to include housing wealth explicitly in their financial strategies for retirement.

Additionally, the analysis takes into account other variables that are derived from responses to Kemeny's work – from theories on the psychology of saving and from knowledge of the Dutch pension and housing systems. First, people with higher incomes appear to be both more likely to have arranged voluntary pension savings and more likely to enter owner-occupation. Therefore, the level of income is included in the analysis (respondents were asked for the net household income).

Second, the household sources of income are included. In the Netherlands, most employees are obliged to participate in occupational pension saving schemes, whereas the self-employed are not automatically part of these schemes and need to create a voluntary pension saving plan to receive sufficient income in retirement. We assume that decisions to voluntarily save for retirement or to purchase a dwelling as part of a retirement strategy also take into account the situation of a partner. Therefore, if applicable, the source of income of the partner is also included in the variable 'Household source of income'. As an example, if one partner is an employee and the other self-employed, the retirement strategy is likely to be more active than if both partners are employees.

Third, we include respondents' expectations about occupational pensions. Respondents were asked whether they expect to receive any pension income from an occupational pension, the answer categories were 'yes', 'maybe' and 'no'. A mix of respondents might answer 'no'; for example, people who have never been employed, or who are employed with no obligation to participate in an occupational pension saving scheme. Finally, the literature indicated that women are generally less occupied with retirement planning than men, therefore gender is also included in the analysis.

The report on the analysis follows the three hypotheses. To start, we explore differences between age groups by using a chi-square test (χ^2). The assumption is that younger households experience greater uncertainty about future public pensions and are therefore more likely than older households to

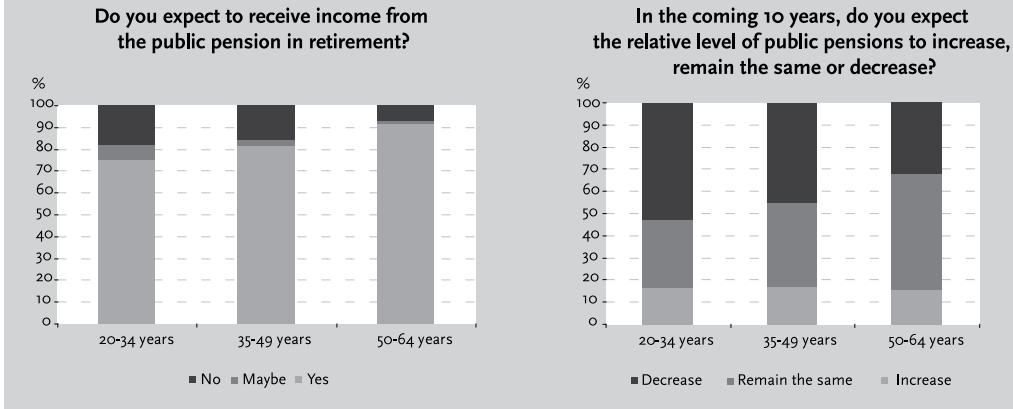
expect income from voluntary pension saving and to enter owner-occupation as part of their retirement strategy. This is followed by a logistic regression, with the predictors including expectations about public pensions and the four other relevant variables.

We will now briefly set out the questions and provide details about the dependent variables in the logistic regression models. To begin with, we measured expectations about public pensions by asking respondents two questions that concerned the future of public pensions. The first was whether respondents expected to receive a public pension in retirement at all. They could answer 'yes', 'maybe' or 'no'. The second question was whether they expected the relative level of public pensions to 'increase', 'remain the same' or 'decrease' in the coming 10 years. Then, to measure the extent to which households expected they would need voluntary pension savings, we asked respondents whether they expected to receive income from voluntary pension savings or assets in retirement. The answer categories were 'yes', 'maybe' and 'no'. The dependent variable in the logistic regression was 'yes, I expect income from voluntary pension savings or assets in retirement' – as opposed to 'maybe' or 'no'.

We then examined who was considering entering into owner-occupation, asking tenants whether they would like to buy in the future. The answer categories were once again 'yes', 'maybe' and 'no'. The dependent variable for the logistic regression was 'yes, I wish to buy a dwelling in the future' – as opposed to 'maybe' or 'no'.

Subsequently, we explored to what extent owner-occupation explicitly plays a role in a household's financial strategy for retirement. We assume that if housing wealth is important in the financial plan, households would expect owner-occupation to provide them with financial security in old age. Additionally, we assume they would explicitly mention financial advantages such as reduced housing expenses, the possibility of selling, letting or utilising mortgage-equity release. Therefore, we first asked owner-occupiers if they expected owner-occupation to provide them with financial security in their old age. Possible answers were 'yes', 'maybe' and 'no'. If they answered 'no', they were categorised as giving 'no explicit role in the strategy' to owner-occupation. Subsequently, those who answered 'yes' or 'maybe' were openly asked in what way owner-occupation would play a role. Respondents were able to give multiple answers. The responses 'selling', 'reduced expenses', 'letting' or 'mortgage-equity release' are interpreted as indicators of an 'explicit (and important) role of owner-occupation in the financial plan for retirement'. Responses referring to 'rising house prices' or the house as a 'nest egg' were regarded as implicit, hence interpreted as 'no explicit role in the strategy'. The dependent variable in the logistic regression was 'explicit role of owner-occupation in the financial strategy for retirement' – opposed to 'no explicit role'.

Figure 7.1 Expectations about public pensions in the Netherlands



All logistic regression models were tested for multicollinearity by calculating the variance inflation factor, and interaction effects were also explored.

7.5 Pension expectations

Figure 7.1 shows the outcomes of two questions concerning household expectations about public pensions. Dutch respondents generally expect to receive a public pension, although 14 percent do not. A larger share of the respondents (43 percent) expects that the relative level of public pension will decrease over the next 10 years. For both questions it is apparent that the answers differ significantly between the age groups. Younger households count somewhat less often on receiving a public pension than older households ($\chi^2(4, N = 652) = 22.1, p = 0.00$). Similarly, younger households are more likely to expect the relative level of public pensions to decrease, whereas the older are slightly less pessimistic ($\chi^2(4, N = 666) = 24.1, p = 0.00$).

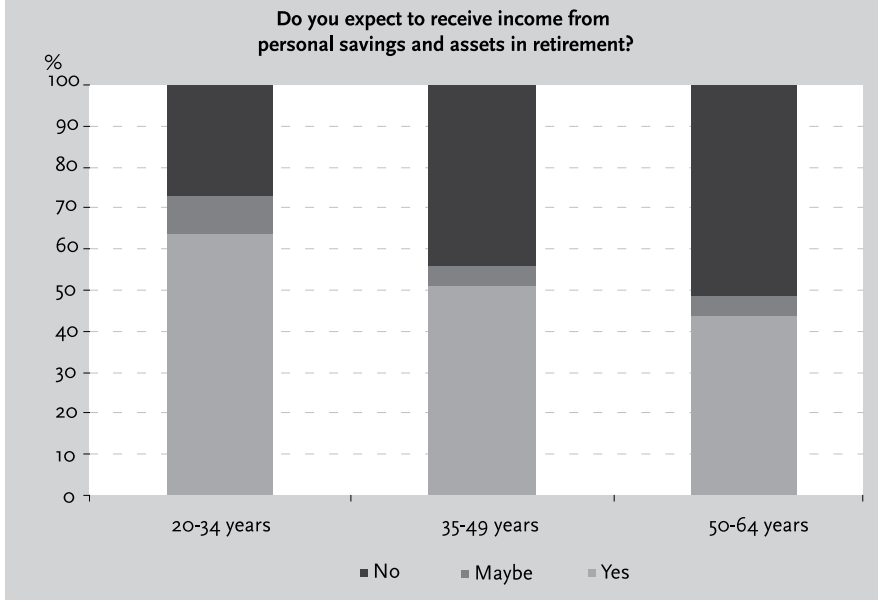
Overall, 53 percent of the respondents expect to receive income from voluntary pension savings and assets. The differences between age groups are also significant here ($\chi^2(4, N = 652) = 26.4, p = 0.00$). The younger age groups seem to perceive a greater need for extra income from their own savings and assets than the older groups (see Figure 7.2).

On the basis of these questions, do expectations about public pensions predict expectations about voluntary pension savings, or are other variables perhaps better or more important predictors? Table 7.4 shows the outcomes of the logistic regression analysis. It can be seen that expectations about public pensions are not significant predictors. Hence, Hypothesis 1, that households perceive a greater need to arrange voluntary pension savings depending on their public pension expectations, is not confirmed.

In contrast, various other variables are significant predictors. Self-employment as a source of household income, higher levels of household income, being a man instead of a woman, or being a woman with a high income² and

² However, if we add this interaction effect to the logistic regression model, it is not a significant predictor.

Figure 7.2 Expectations about voluntary pension savings and assets in retirement in the Netherlands



of a younger age, all predict the expectation of receiving income from voluntary pension savings and assets. Apparently, among the youngest age group and with no link to public pension expectations, respondents think that they will be more likely to need to save voluntarily for a pension. Moreover, respondents who do not expect to receive income from an occupational pension in retirement and who have a high income expect to utilise income from voluntary pension savings and assets (interaction effect). Finally, respondents who do not expect to receive an occupational pension are less likely to expect to need voluntary pension savings and assets. This is somewhat counterintuitive: one would expect that respondents need to counteract the lack of occupational pension saving. We hypothesise that it is the employment situation that explains why these respondents do not count on income from an occupational pension and do not expect income from voluntary pension savings.

Chi-square tests show that expecting no income from an occupational pension more often coincides with being self-employed, receiving income from benefits, and with one partner not being employed (taking care of the household) ($\chi^2(3, N = 642) = 80.1, p = 0.00$). Respondents who are self-employed might be more focused on financially managing in the short term rather than on arranging income for retirement. For respondents who have always received income from benefits, the public pension might provide them with a reasonable income compared to their current income. Respondents who have deliberately chosen to remain at home to take care of the household might be focused on their spouse for retirement income and not think of voluntary pension saving. Another relevant factor appears to be having a temporary or permanent job. Respondents with a temporary job, more often do not expect income from an occupational pension ($\chi^2(1, N = 470) = 20.3, p = 0.00$). For these respondents, managing financially in the short run might also have higher

Table 7.4 Logistic regression – Yes, expect to receive income from voluntary pension saving (n = 573; Nagelkerke R Square = 0.23)

		Sig.	Exp(B)	95% confidence interval for Exp(B)	
				Lower	Upper
Expect level of public pensions in the coming 10 years to	Increase (ref.)	.729			
	Remain the same	.427	.812	.486	1.358
	Decrease	.570	.862	.517	1.438
Expect to receive income from public pension in retirement	Yes (ref.)	.171			
	Maybe	.859	1.095	.403	2.977
	No	.060	1.774	.976	3.225
Household sources of income	Salary (& salary) (ref.)	.018			
	Self-employed (& self-employed/salary/pension/no own income/benefits)	.005	3.136	1.420	6.925
	Benefits (& benefits/salary/pension/no own income)	.317	.726	.388	1.359
	Salary & no own income	.737	.910	.525	1.579
Level of income		.002	1.000	1.000	1.001
Expect to receive income from occupational pension in retirement	Yes (ref.)	.056			
	Maybe	.450	.219	.004	11.223
	No	.020	.136	.025	.731
Gender	Female (ref.)				
	Male	.009	3.304	1.355	8.055
Age group	50-64 years (ref.)	.000			
	20-34 years	.000	2.644	1.605	4.357
	35-49 years	.123	1.434	.907	2.270
Gender (male) by Level of income		.059	1.000	.999	1.000
Expect to receive income from occupational pension by Level of income	Yes by Level of income (ref.)	.047			
	Maybe by Level of income	.562	1.001	.999	1.002
	No by Level of income	.015	1.001	1.000	1.002
	Constant	.001	.218		

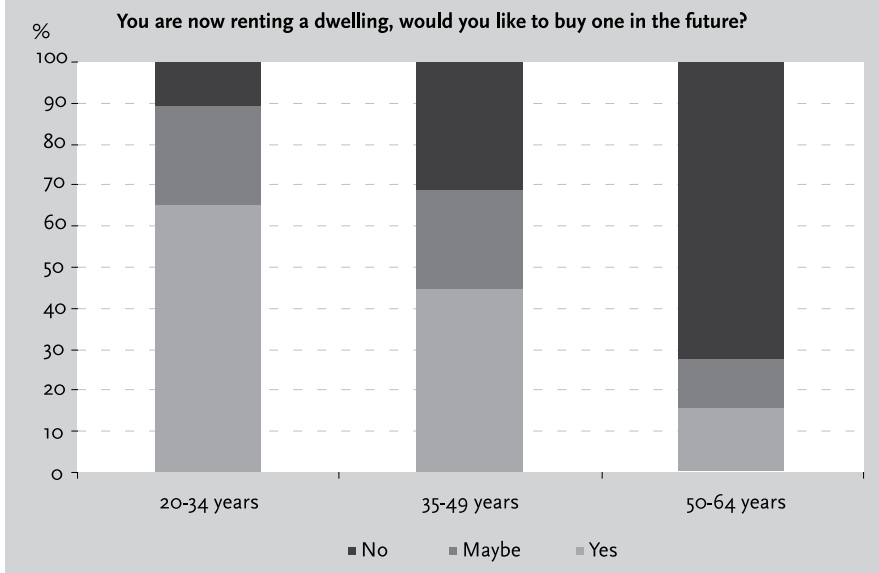
priority in their thinking than saving for retirement. In the literature, we find that in newly established companies occupational pension saving is often not automatically arranged. Additionally, young workers, part-time workers and flexible workers more often than others do not save in an occupational pension fund (AFM, 2010).

7.6 Purchasing a dwelling in response to public pension expectations

7.6.1 Who intends to buy in the future?

About 39 percent of the tenants indicated 'Yes, I would like to buy a dwelling in the future'. Figure 7.3 shows that among respondents between the ages of 20 and 34, many more indicated that they wished to buy in the future than among older respondents. In this group the purchase of a dwelling might also be more realistic in terms of future income. Hence, owner-occupation is apparently seen as a rather attractive form of housing tenure among the young.

Figure 7.3 Tenants' considerations to purchase a dwelling in the Netherlands



Chi-square analyses show that Age is a significant factor ($\chi^2(4, N = 301) = 87.0, p = 0.00$).

Next, we explored whether expectations about public pensions could explain why young people wish to buy more often than older people. The logistic regression (see Table 7.5) shows that expecting the level of public pensions to decrease over the coming 10 years does not predict the wish to enter owner-occupation. However, the expectation of no income from public pensions at all does correspond with the wish to buy in the future. Hence, we find some support for Hypothesis 2 – expectations about receiving a public pension in the future relate to the wish to buy in the future.

Furthermore, we find that the level of income is a significant predictor. Those who wish to become owner-occupiers tend to have higher incomes compared to those who do not wish to purchase a dwelling and those who were undecided. Interestingly, expectations about receiving an occupational pension is also a significant predictor. Respondents who did not expect to receive an occupational pension were less likely to wish to buy than those who expected to receive an occupational pension or those who answered 'maybe'. Once again this can probably be explained by the employment situation of respondents with no occupational pension saving (living on benefits, taking care of the household, having an unstable job situation, or being self-employed). Stable financial conditions and sufficient income are also important preconditions for buying a house. Finally, the age group remains a significant predictor after correction for the other variables.

Table 7.5 Logistic regression – Yes, I would like to buy a dwelling in the future (n = 254; Nagelkerke R Square = 0.32)

		Sig.	Exp(B)	95% confidence interval for Exp(B)	
				Lower	Upper
Expect level of public pensions in the coming 10 years to	Increase (ref.)	.274			
	Remain the same	.610	1.240	.542	2.841
	Decrease	.147	1.850	.806	4.249
Expect to receive income from public pension in retirement	Yes (ref.)	.108			
	Maybe	.840	1.163	.268	5.038
Household sources of income	No	.035	2.978	1.079	8.215
	Salary (& salary) (ref.)	.528			
	Self-employed (& self-employed/salary/pension/no own income/benefits)	.850	1.125	.333	3.807
	Benefits (& benefits/salary/pension/no own income)	.491	.734	.304	1.771
	Salary & no own income	.294	1.645	.649	4.168
Level of income		.012	1.000	1.000	1.001
Expect to receive income from occupational pension in retirement	Yes (ref.)	.039			
	Maybe	.948	.943	.160	5.560
	No	.011	.304	.121	.764
Gender	Female (ref.)				
	Male	.973	1.011	.527	1.941
Age group	50-64 years (ref.)	.000			
	20-34 years	.000	7.819	3.531	17.314
	35-49 years	.004	2.968	1.424	6.185
	Constant	.000	.081		

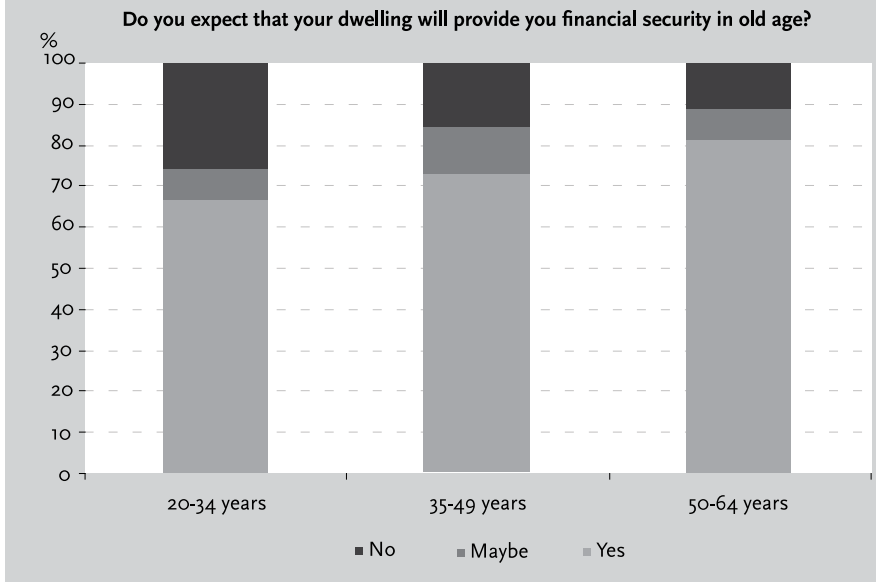
7.7 Owner-occupation as part of a financial strategy for retirement

7.7.1 Which owner-occupiers have owner-occupation explicitly marked down in their financial plan for old age?

Figure 7.4 shows that a majority (overall, about 73 percent) of the owner-occupiers expected that owner-occupation would provide them with financial security in their old age. Chi-square analyses show that differences between age groups are significant ($\chi^2(4, N = 360) = 9.7, p = 0.05$). Contrary to expectations, however, it is not the youngest group that is most likely to agree but rather the oldest.

For respondents who answered 'yes' or 'maybe', the next question was: 'In what way do you expect owner-occupation to provide you with financial security?'. The general outcomes suggest that respondents have faith in owner-occupation as providing a well-performing asset. First, approximately 42 percent of the answers concerned further increases in house prices. Second, almost 33 percent of the respondents referred to housing wealth more neutrally as providing a nest egg. Overall, only about 28 percent mentioned an explicit way in which owner-occupation would play a role in their old age. Most of this group (18 percent of the total) mentioned the possibility of sell-

Figure 7.4 Owner-occupiers' expectations about their dwelling as source of financial security in retirement in the Netherlands



ing. Only 10 percent mentioned reduced mortgage costs, which is not very surprising if we consider the low percentage of outright owners in the Netherlands. If we consider the explicit role of owner-occupation in retirement, chi-square analyses show no significant differences between the age groups ($\chi^2(2, N = 360) = 0.81, p = 0.67$).

A logistic regression shows that there are no significant predictors in our set of variables. Hence, expectations about public pensions do not predict whether owner-occupation plays an explicit role in the financial strategy adopted for old age, nor do the other variables. Hypothesis 3 cannot be confirmed.

Since the theory suggests that people often have short-term time horizons, we selected the owner-occupiers in the age group closest to retirement, those 50 to 64 years old, and carried out a logistic regression to explore which variables predict an explicit role for owner-occupation in the retirement strategy. For two variables, expectations about public pensions and expectations about occupational pensions, we merged two answer categories (see Table 7.6) to avoid the number of respondents in the answer categories becoming too small to complete a proper logistic regression.

We found once again that expectations about public pensions do not predict an explicit role for owner-occupation in the financial strategy. However, the self-employed appear to mention an explicit role more often. This particular group in the Netherlands does not automatically save for a pension. Interestingly, if the respondent's household level of income is lower, respondents more often mentioned an explicit way in which owner-occupation will play role in their retirement. Finally, expectations about occupational pensions appear to matter once again. Those who do not expect an income from an occupational pension more often mention an explicit way (reduced housing expenses, selling, mortgage-equity release, or subletting) by which they expect owner-occupation to play a role in retirement.

Table 7.6 Age group 50 to 64 owner-occupiers: logistic regression – owner-occupation explicitly in the financial plan (n = 88, Nagelkerke R Square = 0.33)

		Sig.	Exp(B)	95% confidence interval for EXP(B)	
				Lower	Upper
Expect level of public pensions in the coming 10 years to	Increase (ref.)	.878			
	Remain the same	.661	1.515	.236	9.717
	Decrease	.620	1.654	.227	12.062
Expect to receive income from public pension in retirement	Yes/Maybe (ref.)	.660			
	No		.570	.047	6.967
Household sources of income	Salary (& salary) (ref.)	.222			
	Self-employed (& self-employed/salary/pension/no own income/benefits)	.050	6.692	.997	44.925
	Benefits (& benefits/salary/pension/no own income)	.785	.780	.131	4.641
	Salary & no own income	.832	.810	.116	5.671
Level of income		.013	.999	.998	1.000
Expect to receive income from occupational pension in retirement	Yes/Maybe (ref.)	.011			
	No		13.743	1.824	103.555
Gender	Female (ref.)	.824			
	Male		1.184	.267	5.260
	Constant	.651	2.802		

7.8 Conclusions

The central aim of this paper was to investigate whether developments in the Dutch pension system and housing system could be related. First, we explored the existing literature on the Dutch pension and housing systems. In the Netherlands, the rate of owner-occupation has been growing and in the literature to date there has been no evidence that this trend could be related to pressure on the pension system. The Dutch government does not make this link explicitly in its policies, although an important argument used to encourage owner-occupation is that it encourages people to save. However, the fiscal policies that encourage the Dutch to buy their dwellings are currently having the simultaneous effect of owner-occupiers becoming increasingly unlikely to pay off their mortgages.

Second, by means of a telephone survey (n = 664), we investigated relationships between pensions and owner-occupation in terms of household perceptions in the Netherlands. To start, we explored the very basic assumption of whether expected changes in public pensions impact on the perceived need to voluntarily save for retirement. Contrary to Hypothesis 1, expectations about public pensions were not related to an expected need for income from voluntary pension savings. This finding could be explained in various ways. Possibly, the Dutch rely on the other mandatory pillar to compensate for the loss of public pensions. Alternatively, they consider the loss of pension income as a fact and do not find it necessary to compensate for the lower expected pension income. It could also be that retirement lies beyond some

people's time horizon and as a result people do not adjust their retirement strategies.

Third, we analysed which tenants intended to enter owner-occupation. Our analysis showed that tenants who think they will not receive a public pension at all are more likely to consider buying in the future. However, respondents who expect the level of public pensions to decrease are not more likely to have the wish to buy in the future. Hence, we can partly confirm Hypothesis 2 – people who do not expect to receive any income from a public pension are more likely to wish to buy in the future. A small number of respondents expect they will to not receive a public pension, whereas the expectation that the level of public pension would decrease is more broadly shared. This suggests that the effect might be comparably small; nevertheless, a statistical relationship was found.

Fourth, despite the fact that fewer Dutch people are repaying their mortgages before retirement, the view that 'owner-occupation provides financial security in old age' appears rather broadly shared. It is most convincingly perceived as such by the oldest group – those closest to retirement. A small number of the respondents indicated an explicit way in which owner-occupation would play a role in their future retirement (i.e. reduced expenses, the possibility of selling, letting or acquiring cash through mortgage-equity release). Overall, we could not find a relationship between public pension expectations and an explicit role of owner-occupation in the retirement plan. Hence, Hypothesis 3 cannot be confirmed.

Overall, we must conclude that expectations about public pensions do not seem decidedly important in the retirement strategies of the Dutch. We find that the young more often expect they will need income from voluntary pension savings, and more often wish to enter owner-occupation. However, they do not have clear ideas about how owner-occupation might play a role in retirement. Nonetheless, if we focus on the oldest group, for whom retirement is more within their time horizons, strikingly, we find that people who have lower incomes, who are self-employed and, most importantly, who do not rely on an occupational pension, are more likely to include owner-occupation explicitly in their retirement plan.

Income appears an important variable that distinguishes Dutch tenants and owner-occupiers. The literature indicated that housing policy encourages households with higher incomes to accumulate wealth in the owner-occupied sector, whereas households with a lower income find dwellings in the rental sector. Hence, housing policy increases social inequalities. From the telephone survey, it appeared that people with lower household incomes were less likely to voluntarily save for a pension and less likely to consider the purchase of a dwelling, yet for such people owner-occupation appeared most relevant to a retirement strategy.

Another important factor is people's participation in occupational pen-

sion saving schemes. The self-employed often do not automatically participate in these schemes, and there are other groups who do not always save for a pension through an employer. Those who had a high income and did not expect an occupational pension were more likely to consider that they would need to arrange voluntary pension savings than others. However, in general not expecting an occupational pension seemed to coincide with unfavourable labour conditions. Such people also appeared less likely to enter owner-occupation despite it appearing to be most relevant to a retirement strategy.

In the Netherlands, where pensions still provide relative security for the elderly in comparison to other European countries, we thus find there are relationships between pensions and owner-occupation. Although they are only statistically defined relationships and we thus have to be careful about drawing conclusions in terms of causality, it seems that public pension expectations are related to plans to enter owner-occupation. Additionally, expecting no income from an occupational pension makes owner-occupation more relevant to the retirement strategy. Based on these findings, we would assume owner-occupation to become more relevant to financial wellbeing in old age in the future, especially if policy changes result in lower pension incomes.

To conclude, the findings of this study deviate from Kemeny's line of reasoning in three ways, with these deviations having implications for policy. First, we found that people who have lower incomes and who do not expect to receive an occupational pension are less likely to save voluntarily for a pension and less likely to enter owner-occupation. At the same time, people who are approaching retirement age, who have lower incomes and cannot fully rely on an occupational pension, consider housing wealth more relevant to their financial planning for retirement. These two findings imply that those who could benefit most from owner-occupation in old age are in fact less likely to enter into it.

Second, the literature indicated that Dutch households build less housing wealth through repayment than assumed by Kemeny. The number of households that become outright owners has decreased as interest-only mortgages have gained in popularity. In this study, we found great optimism about the profitability of owner-occupation. Many of the respondents referred to rising house prices when explaining the ways in which they expected owner-occupation to provide financial security in old age. Should changes in the pension system make owner-occupation more relevant to financial wellbeing in old age, the limited levels of repayment might become an issue. The literature indicates that many Dutch households are not aware of changes in the pension system and many do not realise that an interest-only mortgage implies that they will still have a mortgage debt at the end of the mortgage term. If the current trend in indebtedness continues, it is uncertain whether younger generations will have accrued sufficient housing wealth to fully benefit from

it financially by the time they retire.

Third, the effects of less generous pensions might be much less crucial for owner-occupiers than for tenants. The Netherlands is a country with a large share of tenants (43 percent) and those with lower incomes usually live in the rental sector. Should public and occupational pensions truly become less generous for future generations, thereby making owner-occupation more relevant, the welfare gap between tenants and owner-occupiers will only increase.

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8 Mortgage-equity release

The potential of housing wealth for future Dutch retirees

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Abstract

Interest in the use of housing wealth for future retirees is a topic of growing interest amongst policymakers and scientists. Owner-occupiers who are outright owners have lower housing expenses than tenants do, and they have substantial nest eggs. Mortgage markets leapt on this development and offers special products for the elderly, with which they could release their housing wealth. The question in this paper involves the extent to which households build housing equity (i.e. wealth) that could be released. This question is particularly interesting for the Netherlands, the country with the highest mortgage debt per capita in the European Union. This paper introduces the concept of the Equity-to-Value ratio and reveals the extent to which the people in the Netherlands accumulate housing wealth. This ratio shows that households do build equity. Further analysis indicates that this equity is not built as much by repaying the loan as it is by taking advantage of house price increases.

8.1 Introduction

Owner-occupation is not in the regarded primarily as a pension and, in most countries in the European Union, it is not included in welfare policies. In response to demographic changes, economic globalisation and the current economic downturn, however, pressure on pension systems is increasing and national governments are searching for additional sources of support or income for the current and future retirees in their countries. Housing wealth is obtaining increasing attention in discussions about pension systems. In its most recent Green Paper on pensions, the European Commission states, 'The Internal Market could also be helpful in extending access to additional sources of retirement income beyond pensions, such as reverse mortgages' (European Commission, 2010). Reverse mortgages enable older owner-occupiers to cash in part of their housing wealth while they continue to live in their dwellings. Scholars in the fields of sociology, economics and the multidisciplinary field of housing research are expressing growing interest in the significance of housing wealth in relation to retirement (Chiuri & Jappelli, 2010; Costa-Font et al., 2010; Doling & Horsewood, 2003; Elsinga et al., 2007; Kemeny, 2005; Malpass, 2008; Ronald, 2008; Rouwendal, 2009; Van Gent, 2010; Venti & Wise, 2001).

The idea that owner-occupation improves the financial well-being of retired people is based on the assumption that owner-occupiers will be outright owners by the time they reach old age. The literature distinguishes roughly two types of roles that owner-occupation can play. First, it reduces housing

expenses (Doling & Horsewood, 2003; Kemeny, 2005; Yates & Bradbury, 2010). For instance, Doling and Horsewood (2003) argue that owner-occupation may even facilitate early retirement. Once people own their dwellings outright, owner-occupiers live rent-free, and they are therefore less reliant on income from employment. A second potential role is that housing wealth can be used in line with life-cycle models of saving and consumption; it could thus be consumed in old age (Bonvalet & Ogg, 2008; Chiuri & Jappelli, 2010; Costa-Font *et al.*, 2010; Ong, 2008; Rouwendal, 2009). In theory, the optimal pattern of consumption smoothing would involve reducing housing wealth to zero in the period between retirement and the moment that one passes away. For a variety of reasons, however, households are unlikely to consume all of their housing wealth. It nonetheless provides a substantial source of wealth. At least a part of it can be used to supplement pension income either through selling or through equity-release schemes.

In some countries, governments include housing wealth in welfare policies for the elderly (Malpass, 2008; Parkinson & Searle, 2009). In the UK and (outside Europe) in Australia, popular support for social provisions is relatively low; and pension reforms are characterised by rollbacks in governmental intervention, market-oriented reform, deregulation and privatisation (Freericks, 2010; Malpass, 2004; Pierson, 2002). Owner-occupation offers households the opportunity to accumulate housing wealth, and it is therefore encouraged by the government through tax incentives or subsidies.

In the Netherlands, although owner-occupation is also encouraged through tax incentives, it is not an explicit part of any welfare policy. Its relevance and potential has nonetheless been noticed in research on the asset portfolios of households (AFM, 2010; Alessie & Kapteyn, 2001; Haffner, 2008; Ministry of Social Affairs and Employment, 2006; Rouwendal, 2009; Van de Grift, 2009). Four main observations can be made with respect to the potential role of housing wealth in the Netherlands. First, housing wealth has made households affluent (DNB, 2008; Haffner, 2008). Second, Dutch owner-occupiers are increasingly tending to retain mortgage debt into old age, making outright ownership no longer self-evident (Van der Schors *et al.*, 2007). Third, because taking out additional mortgage debt is more common among younger households, they are expected to plan to use this as a way of obtaining extra cash in their old age. Fourth, it is primarily the higher income groups that become owner-occupiers, and a substantial part of the Dutch population continues to rent (Mulder, 2004). Although the group of owner-occupiers is growing, housing wealth is still available only to a limited part of the population.

In this paper, we explore the impact of these four observations on the potential role of housing wealth in old age. First, we present an overview of the relevant literature. Second, we conduct an empirical exploration of the extent to which Dutch owner-occupiers are accumulating housing wealth towards retirement. To conclude, we reflect on the findings and their impli-

cations for the future. We further state that there is reason for the Dutch government to pay more attention to the social outcomes of its housing policy in the context of pension reforms.

8.2 Theory

Although the European Commission mentions housing wealth as potential source of income 'beyond' pensions, owner-occupation could be considered, at least partly, as a pension arrangement. The process of acquiring a housing asset resembles the process of building up a pension, in the sense that it smoothes income over the life course (Barr, 2004; Kemeny, 1981). Households who plan to purchase a dwelling save for a down payment. When they buy, they invest their savings in the housing asset and finance the rest with a mortgage loan. During their working lives, they gradually repay their mortgage, until they are outright owners in retirement. Changes in the market value of the dwelling also contribute to the potential of housing wealth for retirement.

In the last few decades, the share of households entering the owner-occupied sector has been increasing (Doling & Ford, 2007). A growing proportion of the households have thus begun to accumulate housing wealth. Owner-occupation has grown in the Netherlands as well, increasing from 42 percent in 1985 to 57 percent in 2008 (WWI, 2009). In comparison with older cohorts, younger cohorts are more likely to become owner-occupiers and purchase their first dwellings in an earlier phase of the life course (WWI, 2010).

One important development has involved the deregulation of the financial markets since the 1970s. This has increased access to mortgage credit and thus to owner-occupation (Neuteboom, 2008; Stephens, 2007). In addition, real house prices in many Western developed countries have increased in recent decades (Girouard & Blöndal, 2001). In real terms, the average annual growth rate in the Netherlands was 7.1 percent in the period 1991-2000. Between 2001 and 2007, the increases were more moderate, at 3.0 percent (Haffner & De Vries, 2010). These price developments have increased the relevance of housing wealth in household portfolios. In 2007, 69 percent of all assets held by Dutch households consisted of wealth stored in the stones of owner-occupied dwellings (DNB, 2008). The greatest potential was obviously for older owner-occupiers, most of whom have reached the end of their mortgage terms, repaid their mortgages and profited from the favourable house-price developments for a longer period.

This reasoning would generally be true, if financial deregulations had only increased access to credit with the purpose of financing owner-occupied dwellings. However, mortgage products developed further. In response to the increasing house prices over the long-term, the owner-occupied dwell-

ing became more important as collateral for additional borrowing. In various countries, households have extensively used the opportunity to borrow to use 'mortgage-equity release' (Catte *et al.*, 2004). Amongst western developed countries, the Netherlands, together with the UK, Australia and Canada, appears to have the highest level of mortgage-equity release. In these countries, house-price increases affect private consumption through the mortgage market (Boelhouwer, 2002; Catte *et al.*, 2004).

In Australia and the UK, it was found that households facing financial difficulties were more likely to take out an extra mortgage (Benito, 2009; Parkinson & Searle, 2009; Schwartz *et al.*, 2008). To date, there have been no indications that households in the Netherlands have been using mortgage-equity release in case of financial difficulties. Equity release through refinancing and second mortgages did contribute significantly to economic growth in the late 1990s (Van Els *et al.*, 2003). The rising house prices and the relatively low and decreasing interest rates have been crucial. Most households (70 percent) used their cashed-in housing wealth to renovate their dwellings; 10 percent invested it in other investment vehicles or invested it in saving accounts, 8 percent reported having consumed it, and 6 percent used it for repaying other loans. An additional 6 percent of households spent their housing wealth on other purposes (Van Els *et al.*, 2003). In summary, the large-scale use of mortgage-equity release has probably reduced the accumulation of housing wealth towards retirement.

Another trend in the Netherlands, which has also been observed in other developed countries, is the increasing popularity of endowment mortgages, investment mortgages and interest-only mortgages over repayment mortgages (DNB & AFM, 2009; Scanlon *et al.*, 2008). These types of mortgages delay repayment (endowment mortgages) and are more risky in terms of repayment (investment mortgages), and owner-occupiers who have taken out interest-only mortgages do not intend to repay their mortgages at all. These types of products thus also have an impact on the potential of housing wealth for retirement. In 2008, 47 percent of all mortgage products in the Netherlands were interest-only mortgages (DNB & AFM, September 2009). Van der Schors and colleagues (2007) have shown a cohort effect for the increase of mortgages in old age.

In general, there seems to be a difference between the attitudes of current retirees regarding mortgage take-up and those of the younger generations (Elsinga *et al.*, 2010). Qualitative research in various countries has suggested that current retirees tend to consider saving more important than younger generations do. In discussions regarding reverse mortgages as a potential way of obtaining extra cash in old age, current retirees were more strongly averse than the members of younger age groups were. To some extent, this can be explained as an age effect. Younger people still have future income prospects, and they find it easier to imagine taking out a mortgage debt. Another

er explanation is that there is also a cohort effect. Older people more strongly embrace Protestant, Lutheran or Calvinistic values, which hold that saving is 'good' and having debts is 'bad'. These values are likely to be the result of their experiences of times of financial hardship, including wartime, extreme poverty or hunger. Younger generations that have not faced similar conditions would therefore be more open to taking out mortgage debt.

A final issue that is highly prevalent in the literature concerning the actual or potential role of owner-occupation in the context of pension reforms, involves the uneven distribution of owner-occupation over society (Kurz & Blossfeld, 2004). In most European countries, and in the Netherlands as well, a substantial part of the population continues to rent, and owner-occupiers are typically the households with higher incomes (Mulder, 2004). For Australia, Yates and Bradbury (2010) explain that tenants face a multiple disadvantage in retirement. They must rely on a weaker state pension, they have less private pension savings and they face higher housing expenses. As Malpass (2006) observes for Britain, in the context of pension reform, owner-occupation amplifies inequality.

It is important to note that, in the Netherlands, the developments described above are not only outcomes of market mechanisms; housing policy also has a great impact on the potential of owner-occupation as a pension. Dutch housing policy has a profound impact on mortgage take-up and the distribution of housing wealth over the population (Mulder, 2004; Wolswijk, 2005). Owner-occupiers can deduct the mortgage interest from their income before taxes. Income is taxed against a progressive marginal tax rate, with a maximum of 52 percent (Haffner & De Vries, 2010). Until 2001, owner-occupiers could profit from the mortgage-interest tax deduction for all types of mortgages, including mortgage-equity-release products. The duration of the interest deduction was unlimited. This changed in 2001. Since then, the maximum duration is 30 years and, if the mortgage loan is taken out for any reason other than to finance a dwelling or the renovation of a dwelling, the mortgage-tax deduction cannot be used (Rouwendal, 2009). Since 2004, owner-occupiers moving to another owner-occupied dwelling can deduct only the mortgage interest for the part of the loan that reflects the difference between the housing wealth held in the previous dwelling and the price of the new dwelling. Despite these changes, the Dutch government still provides substantial support to owner-occupiers. Dependent on the income level, the net advantage for households younger than 65 years old that make use of the interest relief is between 7 and 13 percent of their disposable income (Haffner & De Vries, 2010).

Most importantly, the Dutch mortgage-interest deduction intervenes in the potential role of owner-occupation in retirement in two ways. First, the mortgage-interest deduction has made mortgage loans inexpensive, which has had the effect that owner-occupiers tend to borrow more and repay less. The

full pattern of consumption smoothing – achieving outright ownership upon retirement – has therefore become less common (Commissie Sociaal-Economische Deskundigen, 2010). Second, due to the income-taxation system, owner-occupation is financially more attractive for the higher income groups, who have a marginal tax rate of 52 percent, than it is for lower income groups, who have a marginal tax rate of about 33 percent. Accordingly, owner-occupiers are more likely to be households with higher incomes, while households with lower incomes are more likely to live in the rental sector (Mulder, 2004; Schutjens *et al.*, 2002).

8.3 Methods

In the subsequent part of the paper, we focus on owner-occupiers in the Netherlands. The central aim is to explore the potential of housing wealth for future Dutch retirees. We analyse the extent to which owner-occupiers accumulate housing wealth towards retirement; then the mortgage-equity-release practices and finally household plans to release equity for retirement. To be able to consider differences that can originate in different phases in the life course, we distinguish four age groups. The following research questions structure the study:

1. To what extent have Dutch owner-occupiers accumulated housing wealth towards retirement?
2. What proportion of Dutch households has used mortgage-equity release?
3. Were households who experienced financial difficulties more likely to use mortgage-equity release than were households who did not?
4. Do households plan to use mortgage-equity release in retirement?

Data on 895 Dutch residents were collected in May 2008 by means of a telephone survey. The sample was stratified, and participants were selected randomly from subgroups based on housing tenure and age (see Table 8.1). The sample was drawn from a pool of 1.9 million addresses and telephone numbers, which is representative of the population of the Netherlands. Of the people contacted, first by letter and later by telephone, 51 percent agreed to participate in the telephone survey.

The questionnaire consisted of three main parts, which investigated the perceptions of owner-occupation, financial strategies with respect to retirement, and perceptions and use of owner-occupation as a source of wealth. Additional questions concerned housing finance and household characteristics.

To be able to answer the first research question regarding the extent to which Dutch owner-occupiers still accumulate housing wealth, we introduce the concept of the Equity-to-Value ratio (ETV), which is calculated as 1 minus the Loan-to-Value ratio (LTV) (Scanlon & Whitehead, 2004). We also calculate

Table 8.1 Stratified sample for questionnaire survey in the Netherlands

	Age groups				Total
	20-34 years	35-49 years	50-64 years	65 and older	
Owner-occupiers	113	148	123	106	490
Tenants	86	99	116	104	405
Total	199	247	239	210	895

an 'expected ETV' based on the assumption that households wish to be outright owners at the official retirement age of 65. The difference between the actual and the expected ETV enables us to evaluate the extent to which Dutch households still accumulate housing equity. The hypothesis is that they accumulate too little equity to become outright owners in retirement. Differences between the age groups were explored. The share of housing wealth emerging from house-price increases was also made visible. The telephone survey provided data on outstanding mortgage debt, the price that respondents paid for their dwellings, the age at which they purchased their dwellings, their current age and the current value of their dwellings. The latter was estimated by asking respondents for the estimation that the municipality makes as a basis for taxes, rather than their own estimations. This was done to avoid overly subjective estimates. About 14 percent of the owner-occupiers did not answer the questions on mortgage debts or the price of their dwellings.

One complicated issue concerning outstanding mortgages is that many Dutch mortgagees have endowment or investment mortgages with which they save or invest in a separate savings account, life insurance or investment vehicle for the full duration of the mortgage (typically 30 years), with the intent of repaying the mortgage in a single payment at the end of the mortgage term. Of the participants in this telephone survey, about 44 percent had savings mortgages, and 16 percent had investment mortgages. With these types of mortgages, households benefit optimally from the fiscal arrangements in the Netherlands. At first glance, responses to the question, 'What is your outstanding mortgage debt?' might seem to suggest that they had not yet repaid anything. They had deposited savings into accounts connected to their mortgages, however, indicating that we had underestimated the amount of savings that are connected to owner-occupation. Despite this uncertainty, this unique database, which contains both the perceptions and financial characteristics of households, does allow us to investigate the extent to which Dutch households accumulate housing equity.

To answer the second question (How many households withdrew housing wealth through mortgage-equity release?), we asked respondents directly whether they had ever extended their mortgages or taken out second mortgages. We explored differences between age groups. Due to the relatively high level of debt, younger owner-occupiers have probably had fewer opportunities to do so than their older counterparts have had. Further, restrictions on the eligibility for the mortgage-interest deductions, which were introduced in 2001, might have made mortgage-equity release less attractive. In addition, the more moderate developments in house prices since 2001 might have slowed the use of mortgage-equity release.

To answer the third question, we tested the hypothesis that respondents who have experienced financial difficulties are more likely to have used

mortgage-equity release than households who have not. We asked whether respondents had ever experienced either a drop in income or a rise in expenses that had made it difficult for them to afford their monthly housing expenses. The answer to this question was used as an indicator of having or not having experienced financial difficulties.

The fourth research question explores whether households planned to use mortgage-equity release in retirement. Respondents were asked whether they would consider this as a way of supplementing their pension income; they were also asked whether they would do this to finance extra care in their old age. 'Extra' here means care beyond the standard care that is covered by insurance and the government. First, we explored whether people who did consider using mortgage-equity release in retirement had higher levels of accumulated wealth (i.e. higher ETV). This could mean that they accumulate more wealth in order to release it in old age. Second, we explored whether people who had already used mortgage-equity release were more likely to consider this option in retirement. This would mean that acquaintance with the product and process of equity-release facilitates future use.

Overall, a mix of suitable statistical methods was used, including the independent-sample t-test (t), ANOVA (F) and chi-square tests (χ^2). The data do not allow any conclusions about cohort effects, only about differences between age groups. For statistical tests conducted for respondents from all age groups together, we weighted the sample for age. The weights were calculated using data on housing tenure and age that were obtained from Statistics Netherlands and that cover the entire Dutch population.

8.4 Accumulating housing wealth towards retirement – the Equity-to-Value ratio (ETV)

The increasing levels of mortgage ownership among the elderly imply that Dutch owner-occupiers are not smoothing their consumption as much as they could. To what extent are they still accumulating housing equity? To explore this question, we introduced the concept of Equity-to-Value (ETV) ratio to refer to the amount of housing equity that a household holds, as a proportion of the value of the dwelling. In other words, it is the value of the dwelling minus the outstanding mortgage debt, divided by the value of the dwelling. Another definition is 1 minus the Loan-to-Value (LTV) ratio. The latter concept measures outstanding mortgage debt as a proportion of the value of the dwelling. This term is commonly used in the context of housing finance, if the focus is on mortgage debts (Scanlon & Whitehead, 2004).

The mean ETV ratios for the different age groups is shown in Table 8.2. The youngest age group (20 to 34 years old) holds approximately 10 percent of the value of the dwelling, with the oldest group (65 and older) holding almost

Table 8.2 Descriptives on Equity-to-Value ratios (ETV) for different age groups in the Netherlands

Age groups	N	Mean	Standard deviation
20-34 years	96	0.089	0.218
35-49 years	116	0.339	0.345
50-64 years	113	0.589	0.316
65 and older	96	0.781	0.280

80 percent. The standard deviation is the highest for the age categories of 35-49 years and 50-64 years. The greatest diversity in strategies regarding the accumulation of housing wealth can therefore be found amongst these two groups.

To evaluate the extent to which Dutch owner-occupiers accumulate housing wealth towards retirement, we also calculated an ETV_{expected} value for all respondents. The initial assumption is that non-retired people aim to own their dwellings outright at the official retirement age of 65 years. Hence, at the age of purchase, the ETV_{expected} is 0, and at the age of 65, the ETV_{expected} is 1. We assume that households accumulate housing wealth according to the annuity formula, as most of the Dutch save in endowment and annuity mortgages, in which payments occur accordingly. At the beginning of the mortgage term, hardly any capital has been built up, and the largest part of the monthly expenses is spent on the interest, with only a small part used to accumulate capital. In due course, when the saved capital becomes more substantial, less is spent on interest and more is used to accumulate capital.

$$a = [p(1+r)^n r] / [(1+r)^n - 1]$$

$$LTV_{\text{expected}} = p(1+r)^y - a[(1+r)^y - 1] / [(1+r) - 1]$$

$$\text{If Age} < 65: ETV_{\text{expected}} = 1 - LTV_{\text{expected}}$$

a = annuity

p = total debt at the moment of purchase

r = interest rate

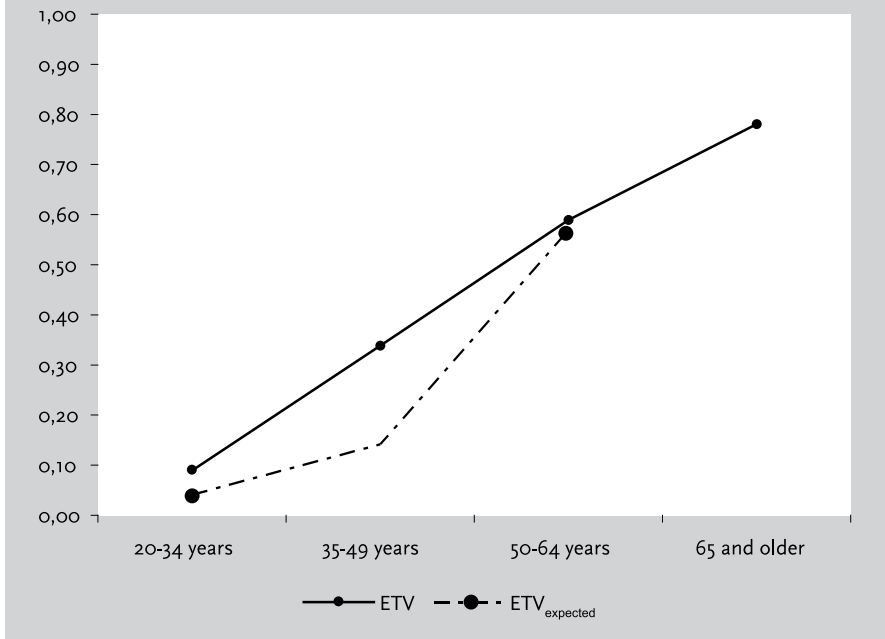
n = total number of instalments

y = number of terms respondent owns dwelling at moment of survey

The symbol a represents the annuity – the theoretical amount that needs to be paid in every instalment. The p represents the total debt at the time of purchase, which we set as 1. Households start with a LTV ratio of 1 and an expected LTV ratio of 0 at the age of 65. The n represents the total number of instalments during which a respondent will accumulate housing equity up to outright ownership. Hence, n is 65 minus the age of purchase. This means that we have simplified the process of housing wealth accumulation and that we did not consider steps on the housing ladder. Further, we applied a uniform interest rate r of 4.90 percent, as this was the average interest rate for 99.5 percent of all mortgages in 2008 (DNB, 2010).

The LTV_{expected} is the part of the debt that respondents still needed to repay at the time that the survey took place, at their current age, if their goal was outright ownership. y represents the number of terms (in this case, years) that the respondents had owned the dwelling at the time of the survey (i.e. current age minus age at purchase). The ETV_{expected} can be then calculated as 1 minus

Figure 8.1 Actual and expected Equity-to-Value ratio in four different age-groups in the Netherlands



the LTV_{expected} . The ETV_{expected} is calculated only for respondents who were not retired, in order to examine the accumulation phases in the life course.

The next important step is to calculate the difference between the ETV and the ETV_{expected} which we call ETV_{dev} . It is the deviance between the actual and the expected ETV ratio.

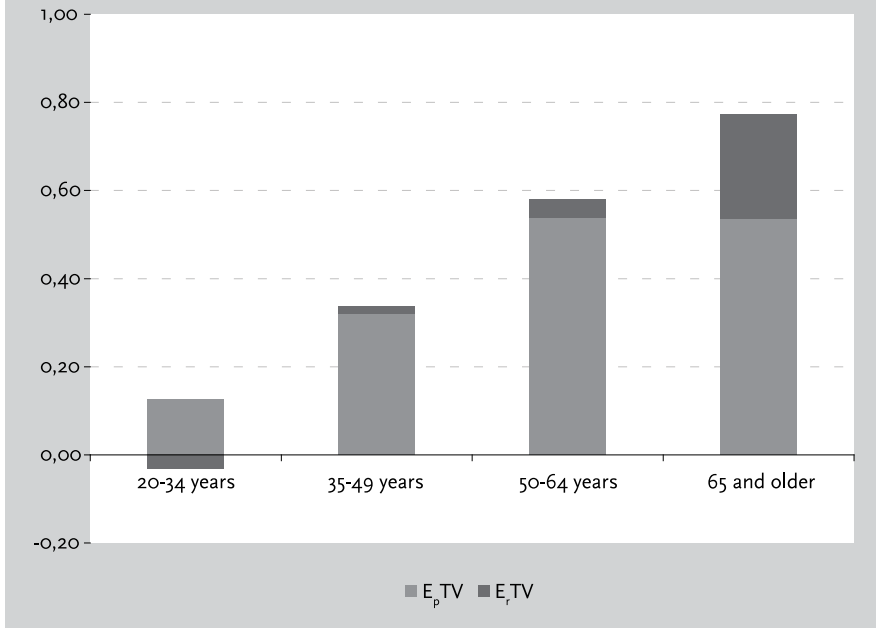
$$ETV_{\text{dev}} = ETV - ETV_{\text{expected}}$$

If the ETV_{dev} is negative, it means that people have accumulated less housing wealth than expected, and that they are not accumulating sufficient housing wealth in order to become outright owners at the official retirement age. If the outcome is positive, they are building up more wealth than expected.

As shown in Figure 8.1, the ETV line lies above the ETV_{expected} line. This means that – contrary to the hypothesis – in all three age groups younger than 65, households had actually built up more ETV than expected. If we consider the differences between the age groups, those between the ages of 50 and 64 had accumulated only slightly more housing wealth than expected, while those between 35 and 49 years had accumulated substantially more. Differences in ETV_{dev} between age groups were significant ($F(2, 322) = 12.0, p = 0.00$). Since it is known that the Dutch tend to not repay their mortgages and even withdraw housing wealth, the positive deviance (ETV ratios that are higher than expected) must be due to increases in house prices.

In Figure 8.2, we show the part of the total ETV that is built up through repayment of the mortgage (E_pTV), as well as the part that emerges through increases in the value of the dwelling (E_vTV). The E_pTV is calculated by divid-

Figure 8.2 Equity-to-Value ratio built up through mortgage repayment (E_rTV) and house price increase (E_pTV) in the Netherlands



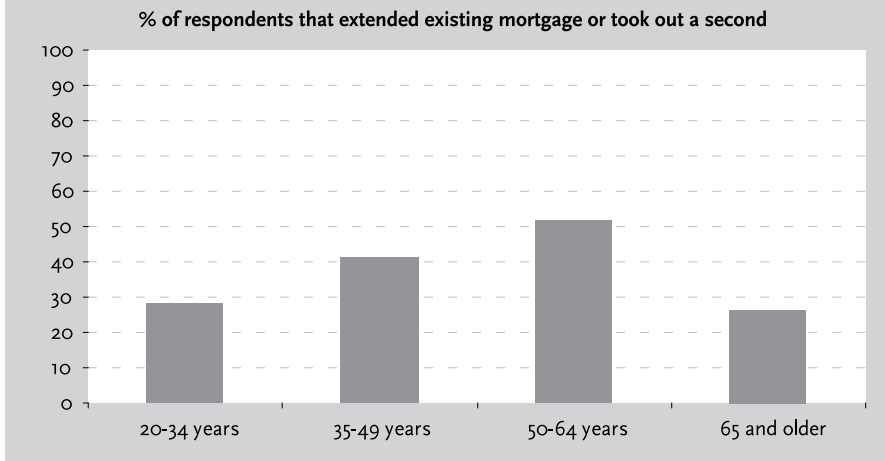
ing the price increase (current value of the dwelling minus the value of the dwelling at the time of purchase) by the value of the dwelling. The E_rTV is calculated by extracting the E_pTV from the ETV ratio.

As shown in the figure, for all age groups, most of the ETV is obtained through house price increases. The figure also reveals that the oldest two age groups had obtained about the same proportion of wealth from price increases, but that those aged 65 and older had a higher E_rTV ($M = 0.24$, $SD = 0.38$) than did those between the ages of 50 and 64 ($M = 0.04$, $SD = 0.33$), $t(204) = -4.0$, $p = 0.00$). Households between the ages of 35 and 49 had built up a remarkably small amount through mortgage repayment, while the youngest group had not actually made any contribution to the ETV. All of the wealth that had been accumulated by the youngest households had been generated by price increases. The negative E_rTV can be explained by the high mortgage take-up by first-time buyers. In the Netherlands, mortgage debt can exceed the value of the dwelling (Scanlon & Whitehead, 2004).

8.5 Mortgage-equity release

We found significant differences between the age groups with regard to the frequency of using mortgage-equity release ($\chi^2(3, N=490) = 21.5$, $p = 0.00$). Households between the ages of 50 and 64 were especially likely to have used this option to obtain extra cash; 52 percent had extended their existing mortgages or taken out additional mortgages. This was more than in the two youngest groups and, remarkably, more than in the oldest group (see Fig-

Figure 8.3 Borrowing against home as a collateral in four different age-groups in the Netherlands

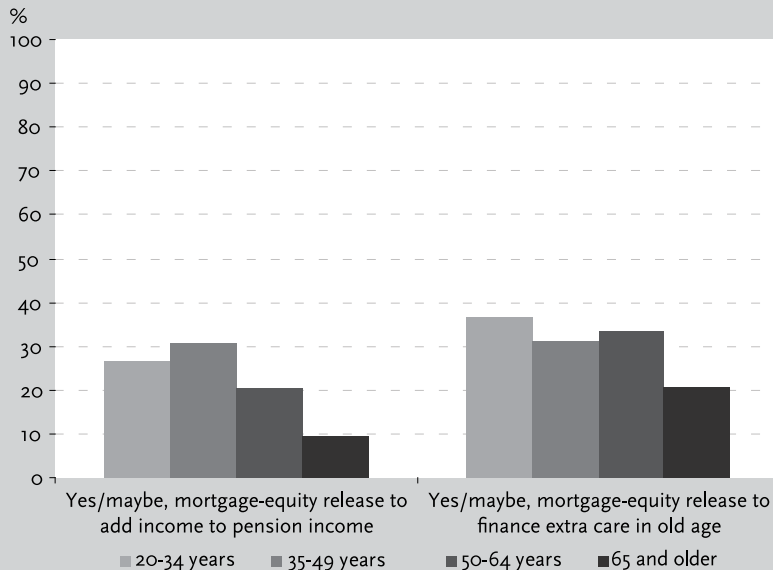


ure 8.3). Once again, differences between the two oldest age groups were significant: ($\chi^2(1, N = 229) = 15.5, p = 0.00$). The future generation of retirees has apparently found it easier to use mortgage products to increase consumption than have the current elderly.

We subsequently investigated whether people who had experienced financial difficulties had used mortgage-equity release more often than those who had not experienced such difficulties. Overall, almost 15 percent of all respondents indicated having experienced financial difficulties with making ends meet. To carry out a valid chi-square test, we added the responses from all age groups together. The findings indeed suggest that a significantly higher proportion of the owner-occupiers (53 percent) who had experienced financial drawbacks had used mortgage-equity release than had owner-occupiers who had not experienced financial difficulties (39 percent) ($\chi^2(1, N = 488) = 4.2, p = 0.03$).

We then explored whether households were planning to use mortgage-equity release in retirement. First, respondents were asked whether they would consider this in order to supplement their pension income. Overall, 23 percent responded 'yes' or 'maybe', when asked if they would use mortgage-equity release to supplement to their pension incomes. Differences between age groups were significant ($\chi^2(3, N = 488) = 17.4, p = 0.00$). As shown in Figure 8.4, the older age groups were less likely to consider this option than the younger age groups were. Respondents were also asked whether they would do this in order to finance extra care in old age. Overall, households seemed somewhat more positive about the use of mortgage-equity release for this purpose (overall, 31 percent indicated 'yes' or 'maybe'). Especially amongst the oldest groups, this appeared to be a more acceptable purpose for consuming housing wealth. Of the respondents aged 65 and older, only 9 percent said that they would consider using this option for additional income, while 21 percent would consider it in order to finance extra care. As before, differences between age groups were significant: ($\chi^2(3, N = 488) = 7.3, p = 0.03$). Especially in the oldest group, fewer respondents would consider using mortgage-equity

Figure 8.4 Considerations to use mortgage-equity release for extra pension income or to finance extra care in the Netherlands



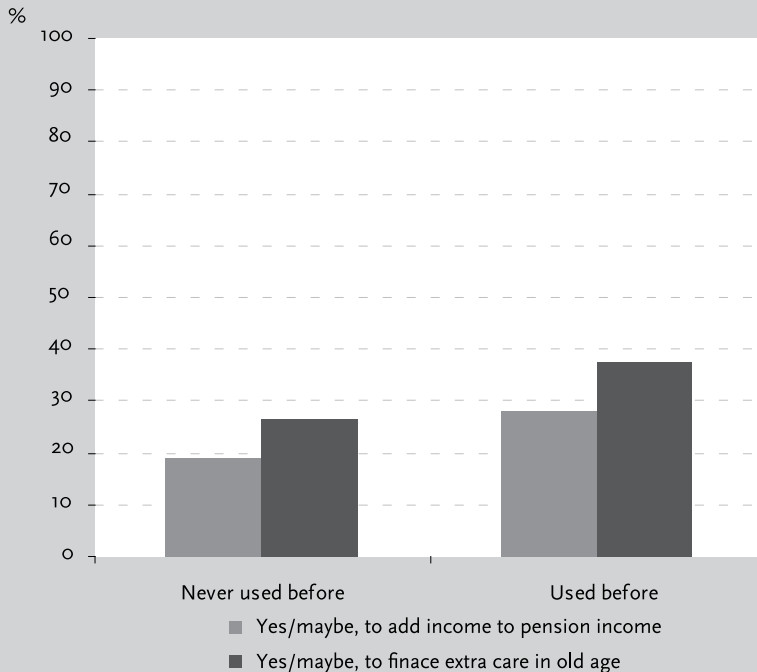
release in retirement (see Figure 8.4).

We then explored whether the people who were willing to consider using mortgage-equity release had higher levels of accumulated wealth (i.e. higher ETV ratios). This could mean that they had accumulated more wealth in order to release it in their old age. No higher level of accumulated housing wealth was found amongst respondents who would consider using mortgage-equity release for additional pension income or amongst those who would do so in order to pay for extra care ($t(419) = 0.42$, $p = 0.34$, and $t(419) = -0.26$, $p = 0.40$, respectively).

Hence, respondents who indicated that they would consider using mortgage-equity release in retirement had not accumulated significantly more housing wealth than those who would not consider this option.

We subsequently explored whether people who had already used mortgage-equity release were more likely to consider using this option for retirement as well. Indeed, we find significant differences between people who had already used mortgage-equity release and those who had not. These differences were observed amongst those who would consider mortgage-equity release to supplement their pension income ($\chi^2(1, N = 488) = 5.3$, $p = 0.01$), as well as amongst those who would consider using it in order to finance extra care ($\chi^2(1, N = 488) = 6.3$, $p = 0.00$). Figure 8.5 shows the differences. This finding suggests that familiarity with mortgage-equity-release products and the process of equity release facilitates the consideration to use it in retirement again.

Figure 8.5 Considerations to use mortgage-equity release in retirement by those who have used mortgage-equity release before and those who have not in the Netherlands



8.6 Conclusions

Owner-occupation could be used optimally as a pension through outright ownership. First, this considerably reduces housing expenses. Second, retired owner-occupiers have substantial nest eggs, which they can use through selling or through equity-release products in case of financial need. In the Netherlands, an increasing proportion of households have purchased dwellings, and an increasing proportion of the population thus has the possibility of using owner-occupation as a pension. At the same time, however, mortgage borrowing has also increased in the Netherlands, and the elderly are increasingly tending to retain mortgage debt into old age. One element within various mortgage practices has been mortgage-equity release. The central aim of this paper was to explore the potential of housing wealth in the Netherlands for future retirees.

One vital issue that emerged from the literature study is that, in the Netherlands, housing wealth is a potential source of wealth, most typically for the higher income groups. Households with lower incomes are more likely to be housed in the rental sector, and they therefore do not have similar amounts of wealth available in old age. Housing policies, specifically the mortgage-interest deduction, appears an influential factor in this wealth gap between tenants and owner-occupiers in retirement.

We now offer a brief summary of the outcomes of the questionnaire survey held in 2008. One initial expectation was that Dutch households do not

accumulate sufficient housing wealth in order to become outright owners in old age, due to the high level of initial and additional mortgage borrowing. Contrary to this expectation, our application of the concept of Equity-to-Value ratio (ETV) revealed that households still accumulate more than expected. The level of wealth built up through mortgage repayment appears alarmingly low, however, whereas the gains from the housing market appear of utmost importance for the accumulation of housing wealth.

Mortgage-equity release has been used on a large scale. We expected its use to be higher amongst the older age groups than amongst the younger groups, as older households have been able to profit from house-price increases for a longer time, and because they had been asset-rich in the time that mortgage-interest deduction was unlimited for all types of mortgage debt. We found that owner-occupiers between the ages of 50 and 64 were especially likely to have used mortgage-equity release, but not the oldest group (i.e. the current retirees). This suggests that there could be a difference between the current old and younger generations with regard to attitudes towards mortgage borrowing. Further, as in other countries, we found that owner-occupiers in the Netherlands who had experienced financial hardship were more likely to have used mortgage-equity release than were households who had not experienced such problems.

We found that a small but significant proportion of the owner-occupiers would consider using mortgage-equity release in retirement. Releasing equity in order to pay for extra care in old age is more often regarded as appropriate than is releasing equity to supplement pension income. Owner-occupiers who indicated that they would consider mortgage-equity release had not accumulated more housing wealth (more ETV) specifically for this purpose. Instead, they were more likely to have used mortgage-equity release in the past.

When observing the development of increasing mortgage debts among the Dutch elderly, the question arises whether older owner-occupiers who are in debt could be at risk. Reflecting on the two roles that owner-occupation can play in retirement – having reduced housing expenses and having a nest egg – the consequences of the limited accumulation of housing wealth and the outstanding mortgage debt depend primarily on income and expenses. As long as retired households can make ends meet and can afford their monthly mortgage expenses, the mortgage debt will not have any consequences. More research is necessary in order to gain insight into the risks for indebted owner-occupiers. Topics of particular interest include the extent to which pension reforms in the Netherlands will affect the future pension incomes of this group, and developments that will determine their future housing expenses. It should also be taken into account that saving mortgages, investment mortgages and similar mortgage types typically hide part of the capital that is being accumulated in order to repay the mortgages. In the future, questionnaires should be developed in such a way that they provide better insight into

the assets accumulated in savings accounts and investment vehicles that are intended to repay the mortgage. These facilities should be considered when discussing the consequences of mortgage debt amongst the elderly.

Dutch households that are unable to make ends meet must either reduce their expenses or increase their income. Households can choose from amongst various strategies. Even for dwellings that are not owned outright, owner-occupation can still play a role in the strategy as a nest egg. Indebted older owner-occupiers still have substantial nest eggs due to house price increases. The crucial factor will be whether they have opportunities for cashing in their housing wealth. Are they able to sell their house and move to a less expensive dwelling? Can they sell and find affordable rental housing? What are the possibilities on the mortgage market?

As long as owner-occupiers are able to cash in their housing wealth, the current way of accumulating housing wealth in the Netherlands has turned out rather well, especially for the older age groups. They normally bought at the 'right' time, before the late 1990s, and they used mortgage-equity release when substantial gains were made on the housing market. In general, however, it seems that Dutch owner-occupiers have become increasingly dependent on house-price developments, and it is uncertain whether these favourable developments will be similar for future generations. Research conducted by the International Monetary Fund has suggested that Dutch house prices are 30 percent higher than would be justified according to the fundamental tenets of house pricing (Cardarelli, Igan & Rebucci (IMF), 2008). Households that experience financial difficulties and use mortgage-equity release are more vulnerable to situations involving decreases in house prices.

Another issue is that the social outcomes of Dutch housing policy are becoming increasingly relevant in light of the pension reforms. Pension incomes as a proportion of an individual's last earned income will be lower for future retirees than it is for the current elderly (Van de Grift, 2009). In addition, pension incomes will be lower than households currently anticipate on (AFM, 2010). The Netherlands Authority for the Financial Markets (AFM) refers to a yawning gap between the expectations of households about their future pension incomes and their actual pension rights and future pension income.

For owner-occupiers, the limited deductibility of mortgage interest will become apparent for the first group of elderly in 2031. If no changes occur in current mortgage-borrowing practices, a substantial proportion of owner-occupiers will face increasing mortgage expenses. Owner-occupiers might seek ways to cash in their housing wealth, which will most likely have consequences for dynamics on the housing market and the mortgage market. For tenants, the wealth gap will become increasingly visible due to the pension reforms. Compared to owner-occupiers, tenants have lower income and fewer assets, and they lack the possibility of obtaining extra cash. The mortgage-

interest deduction has magnified the differences between the asset portfolios of owner-occupiers and those of tenants. The mortgage-interest deduction, its impact on mortgage borrowing and its effect on the distribution of housing wealth are highly undesirable in the context of pension reforms. For these reasons, the gradual repeal of the mortgage-interest deduction seems appropriate.

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9 Conclusions: towards understanding and new hypotheses

In the various chapters of this book I investigated the role of housing wealth in household retirement strategies in nine European countries and in particular in the Netherlands. The knowledge gained provides a basis for theory building, increasing the understanding of the role of the relevant informal and formal institutions. This is important because institutions typically only change at a very slow rate, and because they determine the nature of future policy reforms (Pierson, 2002; Williamson, 2000). Additionally, this knowledge provides a basis for a discussion of future developments in welfare policies and the role of housing in these developments.

As discussed above, there are two lines of reasoning concerning the future role of owner-occupation in household financial strategies for old age. First, the convergence approach assumes that in all countries (1) households would now increasingly decide to purchase a dwelling among others in response to old-age welfare restructuring; (2) households would wish to accumulate housing wealth to reduce their housing expenses and to build up a nest egg; and (3) this nest egg would be cashed in if necessary, with the availability of mortgage-equity release products strongly facilitating the cashing in and consumption of housing wealth in old age. Second, the institutionalism approach assumes that the particular context of a country might mean there are (1) a greater variety of reasons to purchase a dwelling or not, (2) a greater variety of financial strategies in which not only the state and the market but also family and non-profit organisations are present, and (3) a greater variety of reasons to consume housing wealth or not.

In this chapter I put findings in perspective by referring to the limitations and advantages of the data, I summarise some key findings and reflect on the relevance of the convergence and institutionalism approaches. As mentioned in the introductory chapter, I endeavour to contribute to the body of knowledge available concerning life-cycle theory, as well as the theory developed by Kemeny concerning the trade-off between old-age welfare provision and owner-occupation. Furthermore, I reflect on the possible future of housing-asset-based welfare. Finally, I wish to set out some topics for future research.

9.1 The data: limitations and gains

The conclusions of this thesis are for a large part based on in-depth interviews with a limited number of households in various countries. For financial reasons, the number of interviews conducted in the European projects was restricted to 30 per country. A more fruitful way of engaging in interview studies would be to use the saturation method, which entails continuing to conduct interviews until only no new patterns emerge from the interviews. Despite this, these interviews and the comparison of their outcomes have been found to be highly valuable for gaining an insight into the some-

times quite distinct perspectives in the countries in question. The interviews highlighted the informal institutions – the customs and norms in these countries – and also investigated the formal institutions that appear to matter most to household perceptions, or that appear most relevant when explaining differences between countries. It is important to be aware that findings from household interviews within a country provide in-depth knowledge, but these findings cannot be generalised to a national level or beyond. The main and most valuable purpose of the interviews was to provide information for the development of theories and to formulate hypotheses for further study.

In relation to the Netherlands, I have been able to further investigate the hypotheses developed using the interview studies (Chapter 6) and on this basis make some generalisations. In Chapter 7, I investigated whether housing wealth was perceived as more relevant when Dutch households expected public pensions to become less generous in the future. In Chapter 8, I introduced the concept of the Equity-to-Value (ETV) ratio, revealing to what extent the Dutch still accumulate housing wealth and to what extent they consider housing wealth explicitly in their retirement strategies. The Netherlands and these two studies are not at the centre of the attention in this concluding chapter but will be referred to if relevant.

Another issue that needs to be mentioned before setting out the findings and developing the theories is that owner-occupiers have generally been at the centre of attention in this book, with little being said about the position of tenants in old age in the various countries. However, throughout it has been apparent that the wealth gap between tenants and owner-occupiers has enlarged over the last decades due to long-term increases in house prices. It is possible that welfare reforms and shifts of responsibility towards individual households in various countries might make this wealth gap even more crucial in relation to future financial wellbeing. It is also possible that tenants might receive certain types of government protection that owner-occupiers do not receive. Further studies are required to understand the existing and emerging inequalities.

9.2 Findings: What role does housing wealth play in retirement strategies?

9.2.1 Why households decide to purchase a dwelling

	Convergence approach	Institutionalism approach
1 Why do households purchase a dwelling, what are their considerations?	In all countries in response to old-age welfare restructuring	For a great variety of reasons, depending on the national context

The convergence approach and in particular Kemeny's theory (1981, 2005) assumes that the current restructuring of old-age welfare would lead households to consider purchasing their homes. It is considered that households would want to accumulate housing wealth and reduce housing expenses. Especially in countries with existing low owner-occupation rates this would lead to an increase in the proportion of households entering owner-occupation. The institutionalism approach assumes that there are a greater number of diverse considerations relevant to the decision of households to purchase a dwelling. The reasons why, across countries, households enter owner-occupation are most closely examined in Chapters 2 and 4 in relation to Germany, Hungary, the Netherlands and the UK.

The large body of literature that concerns household choice of housing tenure illustrates a great variety of relevant variables, in which welfare state variables are not typically included (e.g. Clark *et al.*, 1994). Malpass (2008) argues that Kemeny overestimates the causal relationship between welfare state provision and owner-occupation with respect to household perceptions and behaviour. Similarly, the interviews suggested that in most countries factors other than reforms to old-age welfare provision influence the decisions of households to purchase a dwelling. Above all, households seem to be searching for a stable and decent dwelling for themselves and their families, whereby 'stable' refers to being in control of the length of stay in the dwelling and 'decent' refers to a dwelling that fits the household's living standard requirements and is related to the level of income and assets. In establishing their requirements, households compare the dwellings they can afford in the rental sector and the owner-occupied sector.

Often the requirement to find stable and decent housing is dominant in the choice of owner-occupation (e.g. Hungary, UK). In such cases, stable and decent housing cannot be easily found in the rental sector, the protection of tenants in the private rental sector is weak and the choice of a certain quality of dwelling in the rental sector overall is limited, with foremost the poorest households living in this sector. Sometimes it is more the case that rental housing is perceived as inaccessible (social rental housing in the Netherlands).

However, if a stable and decent dwelling could be found in the rental sector, interviewees to a greater extent take into account other aspects related to owner-occupation. Owner-occupation is perceived as an investment good, which makes it often attractive housing for the longer term. However, households also consider the pros and cons of having a mortgage, assuming the responsibility for maintenance and the attractiveness of investing in owner-occupation compared to other forms of investment. This was typically the case in Germany, where households definitely considered old-age welfare provision in their decision to buy, more so than in the other three countries.

To some extent this finding supports Kemeny's assumption that house-

holds decide to purchase a dwelling due to reforms to old-age welfare provision. This is apparent in household perceptions in a country where the rental sector is large and perceived as being attractive. In comparison to the other countries in this study, Germany has the lowest percentage of owner-occupiers – 43 percent of households. German households are very aware of changes to the pension system, with the statutory pension becoming less generous and households increasingly needing to assume responsibility for private pension savings. When households think about whether or not to purchase a dwelling, these reforms are part of their considerations.

A critical question is whether young German households are now more likely to buy a dwelling than they were in the past due to the changes in old-age welfare provision. If this became the case in Germany, Kemeny's reasoning (2005) would be supported. Whether this will indeed happen is difficult to predict, as the interviews also revealed that young Germans sometimes find investment in owner-occupation unattractive due to its inflexibility and the perceived heavy burden of a mortgage. Although German tenants seem to wish to enter owner-occupation at some point in their lives, the private rental sector is perceived as an affordable and acceptable alternative. The rental sector allows households to move house if required and to invest in other types of assets for their retirement. For example, German tenants invest in housing assets by becoming landlords.

9.2.2 How households include housing wealth in their retirement strategy

	Convergence approach	Institutionalism approach
2 In what way do owner-occupiers include their dwelling in a financial strategy – what strategies do they opt for?	In all countries they accumulate housing wealth to reduce housing expenses and to build a nest egg that can be cashed in and consumed in times of financial need	There is a great variety of strategies, depending on the national context

Kemeny also hypothesised that households would wish to accumulate housing wealth and reduce housing expenses. Similarly, applying the life-cycle theory to the accumulation and consumption of housing wealth, it was expected that households would accumulate housing wealth by repaying the mortgage and becoming outright owners and households would be able to cash in and consume their housing wealth in retirement. Alternatively, the institutionalism approach assumes there may be other types of strategies which are important. In each chapter of this book I have explored to a greater or lesser extent the way in which owner-occupiers include their dwelling in financial strategies for old age.

In all the selected countries, older owner-occupiers appear to perceive their dwelling as a valuable financial buffer. This is especially true if social welfare provision and pension systems are less generous and households experience a serious drop in income after retirement. Whereas the decision to buy was only seldom strongly related to welfare state restructuring, in contrast, once people are owner-occupiers they seem to have a strong perception that their housing wealth is supporting their welfare needs, especially in old age. This was found in all countries and supports the hypothesis that if state welfare provision becomes less generous, households increasingly perceive their dwelling as an important element of their financial strategy.

However, owner-occupiers do not accumulate the maximum amount of housing wealth in all European countries. In the Netherlands, many households do not fully repay their mortgages and hence do not reduce their housing expenses as much as possible. In a context of generous pensions, together with fiscal arrangements that make mortgage loans cheap, it has become normal to have a mortgage throughout the life cycle. On average, Dutch households in the age group of 65 years and older have an Equity-to-Value ratio (ETV) of 78 percent (see Chapter 8). It is yet to be determined whether, in response to changes in the pension system, households will be more likely to repay their entire mortgage in the future or whether the current fiscal arrangements and mortgage customs in the Netherlands will remain more or less the same.

The reduction of housing expenses in old age plays a role in household perceptions, especially in countries where tenants form a substantial group, where the mortgage market plays a role in financing the dwelling, and where households experience a drop in income when they retire. Thus, Kemeny's assumptions and those based on the life-cycle model are relevant to household perceptions in countries where there is still a large rental sector and where households typically finance their dwelling with a mortgage.

However, the institutionalism approach also appears relevant. Older owner-occupiers cannot compare themselves with older tenants in terms of housing expenses in all national contexts, and the mortgage market does not necessarily play a role in financing dwellings in all countries. Here, the reduction of housing expenses is not a matter of household perceptions but seems to be self-evident. Additionally, in the Netherlands, reduced housing expenses are not mentioned as an advantage in comparison to tenants, rather it is the 'stable' housing expenses that matter here. The fact that rent regulation was under discussion at the time of the interviews, led Dutch interviewees to believe that mortgage expenses with a fixed interest rate provided more certainty about housing expenses in the future than rents.

Subsequently, there are other ways in which housing wealth plays a role in the strategies of households. These are apparent in countries where households attach great value to leaving a bequest, and also within countries

among households who find it important to leave their dwelling as a bequest. First, in return for support or care in old age, housing wealth can also be left as a bequest to children or other care providers. Second, households can also let their dwelling to acquire income in the case of emergencies, thereby preventing the next generation from losing their inheritance.

Finally, it is important to note that maintenance is regularly experienced as a burden – both financially and physically – by older owner-occupiers in various countries. Maintenance is often overlooked when reasoning about the role of owner-occupation in household financial strategies. Yet, in the past in times of economic downturn maintenance became a problem for a part of the owner-occupiers. For example in the 1970s and 1980s in the Netherlands and the UK (Teijmant, Schepens 1981; Karn *et al.*, 1985). Especially for the elderly who experience a drop in income, it can become more difficult to save for a financial buffer to cover such expenses. Additionally, if the elderly suffer from poor health, they might no longer be able to carry out maintenance work themselves and require help. If there are no relatives to maintain the dwelling, their costs might become substantially higher. Depending on the level of income and health, older owner-occupiers might decide not to maintain the dwelling to the standard they did in earlier phases of their life cycle.

9.2.3 Under what conditions people cash in and consume housing wealth

	Convergence approach	Institutionalism approach
3 Under what conditions would households consume their housing wealth?	Households tend to consume their housing wealth in conditions of financial need. This is even more apparent if mortgage markets provide mortgage-equity release products	A great variety of conditions are relevant, depending on the national context

The life-cycle theory on saving and consumption suggests that in old age households will consume their housing wealth when in financial need and particularly in retirement, and this is because they wish to maintain their living standard over their life cycle. Households accumulate wealth during the earlier phases of the life cycle, when income is relatively high, and they consume this wealth in retirement, when income is relatively low. However, at present, households in the EU are not consuming housing wealth as much as is expected (Turner & Yang, 2006), a situation which can be explained by the fact that housing wealth is typically perceived as an illiquid asset. In some countries, the only way to cash in housing wealth is to sell the dwelling. With the development of new mortgage products – reverse mortgages that enable

outright owners to release their housing wealth without moving house in old age – it is expected that owner-occupiers, in a greater number of countries, will increasingly use their housing wealth according to the life-cycle theory. The institutionalism approach, in contrast, assumes that there might be other aspects of the national context which should be taken into account. Hence, additional conditions might be relevant to predicting household consumption of housing wealth. In Chapters 3, 4 and 5, I analysed the conditions under which households in different countries would consume their housing wealth, either by selling or by mortgage-equity release schemes.

The interviews suggested that cashing in and consuming housing wealth is usually not something households do simply to add extra income to their retirement income, in other words, simply to maintain a living standard, as was suggested by the basic life-cycle theory. However, there are differences between countries and between households within countries. An important explanatory factor seems to be the importance of the bequest motive. If it is important to leave a bequest, households have greater resistance to the idea of consuming housing wealth. As was briefly indicated above, in some countries intergenerational transfers are self-evident and are an important welfare mechanism. In contrast, in countries where (or among households for whom) the bequest motive is less important, there seems a greater interest in consumption of housing wealth.

The interviews suggested there was a relationship between frequent policy reform and the level of aversion to the consumption of housing wealth. Interviewees who expect that government policies with respect to social benefits, public pensions and the provision of old-age care might be the subject of policy reform in the future are more hesitant to consume housing wealth. With the possibility that more financial emergencies might occur in the future, housing wealth seems to become more critical as a financial buffer or, in other words, as a precautionary fund. Thus, low trust in government actions and expectations about policy reform seem to inhibit the consumption of housing wealth and enhance other types of strategies, in which, for example, the family might play a role.

Housing wealth typically seems to be regarded and used as a precautionary fund or as a last-resort option. There appear to be differences between countries in the risk for owner-occupiers of financial emergencies and the resulting need to consume housing wealth. In all countries, households with higher incomes are more often owner-occupiers. People with higher incomes are generally better savers than people with lower incomes (Wärneryd, 1999). As a result, owner-occupiers are generally less often confronted with financial emergencies than tenants. In countries where owner-occupiers are also strongly represented in lower income quintiles (e.g. Hungary, Slovenia and Portugal; see Figure 5.5 in Chapter 5), owner-occupiers appear more often at risk of poverty (see Figure 4.3 in Chapter 4). In these countries, housing

wealth seems more crucial to welfare needs.

The traditional means of cashing in and consuming housing wealth is by selling the property. A new option in some countries (Hungary, Finland, the Netherlands and the UK) is mortgage-equity release, although in other countries this option does not exist (Belgium, Germany, Portugal, Slovenia). On the basis of the life-cycle theory, it was expected that households would perceive reverse mortgage products as an attractive option for old age. By using a reverse mortgage, older households would be able to continue living in their dwelling while cashing in housing wealth.¹ The interviews reveal a range of factors that impact on the attractiveness of the options of selling and mortgage-equity release. Overall, it appears that households think more of selling than of additional mortgage borrowing and even if reverse mortgages are available in a country, or if the concept is explained to interviewees, they are usually not enthusiastic about the option.

However, selling is also not generally perceived as a viable option. It is found to be more acceptable if owner-occupiers consider it normal to move house. Therefore, in countries where households speak of a 'housing ladder'² (UK), it is easier to imagine moving house in old age to obtain some extra cash, as opposed to countries where housing mobility is low and households find it normal to purchase a dwelling only 'once in a lifetime' (Germany).

If households decide to sell in the case of financial need, they have to either move to a cheaper dwelling in the owner-occupied sector or to a dwelling in the rental sector. The availability of decent cheaper housing or stable and decent rental housing thus impacts on the attractiveness of the option to sell in retirement. If households have a dwelling in the higher segment of the owner-occupied market it is easier to imagine moving in old age. A cheaper owner-occupied dwelling would still provide them with decent housing that accords with their living standards. However, this is not the same for owner-occupiers in the lower segment of the market. If they wish to remain owner-occupiers there are fewer options for cashing in a substantial part of their housing wealth to resolve their financial need. Only when these households are able to find a stable and decent dwelling in the rental sector can they release a substantial part of their housing wealth. In addition, the rental sector could spare them the maintenance (Sweden, the Netherlands). If there is no acceptable rental housing, households at the lower levels of the owner-occupied market might decide to use alternative strategies, either relying on family support or using equity release products (Reifner *et al.*, 2009).

Mortgage-equity release is more acceptable in some countries than in oth-

¹ The drawback of selling is that one has to move.

² The housing ladder implies that households find it normal that a household starts with a cheaper dwelling, and after makes steps up the ladder to more expensive dwellings over time.

ers. A first crucial factor is the level of trust that households have in mortgage lenders. In all of the countries examined, the interviewees expressed varying degrees of distrust. For example, they wondered what these types of products cost and whether there are hidden costs. Some doubted that a financial institution would make a fair evaluation of the market price of their dwelling. Others questioned what would happen if the loan exceeded the value of the dwelling: Would this have consequences for their children? Finally, some were unsure about whether using a reverse mortgage would allow them to remain living in the dwelling until both partners had passed away. Interestingly, the level of trust seems higher in countries where options to release housing wealth are offered by non-profit or governmental organisations. Different possibilities for equity release seem to exist in various countries (Germany, Slovenia).

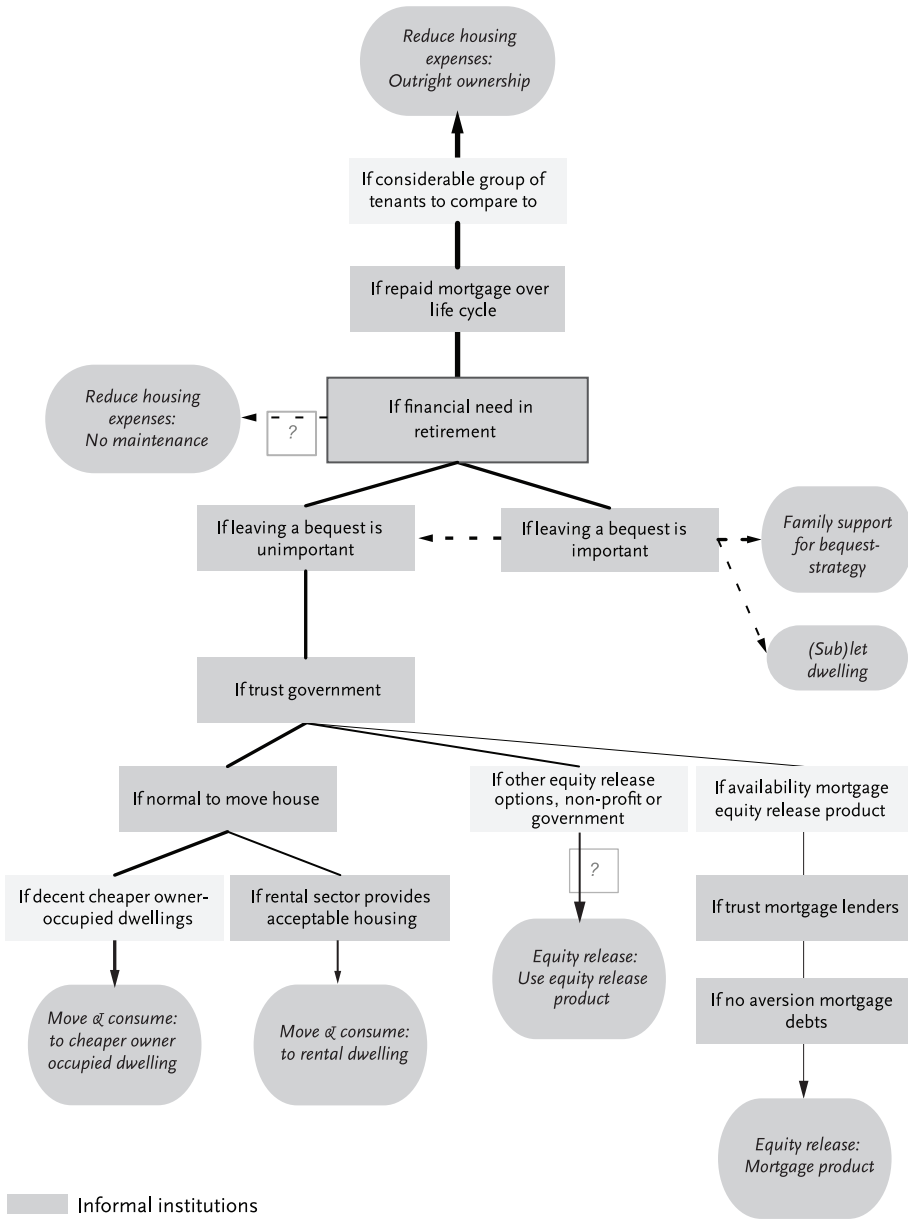
A second factor is that there seem to be differences between countries (but also between households) in terms of the norms concerning saving and borrowing. In some countries, a mortgage is perceived as a burden which households are relieved to be rid of (Finland and Germany). In other countries, having a mortgage is no reason for concern and, unsurprisingly, in such countries (Netherlands, UK) mortgage-equity release in old age is more easy to imagine than in countries where a mortgage is perceived as a burden.

Interestingly, if mortgage-equity release is acceptable in a country or among certain households, some might have already used this method to obtain extra cash before retirement. As they consume housing wealth in these early phases of the life cycle, the result might be less potential for borrowing in retirement. This appeared to be the case in the Netherlands. The majority of households have interest-only mortgages and a substantial number have also taken on additional mortgage debt to finance renovation, to resolve financial difficulties or to finance other consumption purposes. These households also appeared to be more willing to consider additional mortgage borrowing in retirement (Chapter 8). However, it is questionable whether such households have accumulated sufficient housing wealth to do so, with the level of wealth accumulation crucially depending on house price increases.

9.3 New hypotheses

Figure 9.1 visualises key findings with respect to the role of housing wealth in retirement strategies. The figure mainly shows informal institutions (dark grey square boxes), but also includes the formal institutions and individual outcomes (light grey square boxes) (see introduction Nee et al., 2005; Williamson, 2000) that appeared most crucial in the interview studies and which differ between countries and lead to different appropriate strategies (grey

Figure 9.1 Theory building



- Informal institutions
- Formal institutions and individual outcomes
- ? Further research needed
- Different appropriate strategies
- Less or more common considerations
- Considerations in situations of severe financial hardship

round boxes with italic text). The 'normal' considerations follow the continuous lines. The dotted line is only followed if households face severe financial hardship and are forced to find a solution. Following the dotted line is experienced as unpleasant. If the descriptions in the white boxes are not true, resistance will be higher and households less likely to choose the strategies that are presented at the end of the line. Based on the interview studies, I hypothesise that households tend to choose the lines of least resistance. In all countries the thicker lines seem more acceptable than the thinner lines. This figure provides a guideline to understanding what households find to be the appropriate role of owner-occupation in their financial strategies for retirement.

A 'reduce-housing-expenses-strategy': if households commonly repay their mortgages during the life cycle and there is a substantial group of tenants to whom owner-occupiers can compare their housing expenses, reducing housing expenses through outright ownership seems to be a conscious aspect of the financial strategy for old age. If these conditions do not exist – with households being outright owner already early in the life cycle and unable to compare themselves favourably to a substantial group of tenants – reduced housing expenses in old age seem to be self-evident and are not perceived as an advantage which will be accrued, either in comparison to others or in comparison to earlier phases of the life cycle. In all countries, reducing housing expenses by becoming an outright owner is perceived as the most comfortable way to include owner-occupation in a financial strategy, with households retaining the full amount of housing wealth. Related to the 'reduce-housing-expenses-strategy' is a household's option to not spend income on maintenance due to financial concerns. This strategy also affects the value of the dwelling and hence the amount of housing wealth. This manner of reducing housing expenses has not been central to this research and needs further consideration.

A 'family-support-for-bequest-strategy': if leaving a bequest is perceived as the norm, a common strategy is that households receive support, both in-kind and financial, and in return leave their housing wealth as a bequest. If this is not sufficient to resolve any financial need, households can either choose to sublet or may be forced to decide between leaving an inheritance or finding a solution for current financial hardship. In all of the countries, where possible, older interviewees seem to avoid relying on children for support in their old age. However, if there is a pressing need for care or for financial support and the inheritance is essential for the future financial wellbeing of the children, accepting support is a better option than moving and consuming the housing wealth or using an equity release strategy. Household housing expenses thus remain the same and the full value of housing wealth is maintained.

A 'move-and-consume strategy' is acceptable if leaving a bequest is unim-

portant, if households trust the government, meaning that they do not expect sudden changes in public welfare provision, and if households find it normal to move house once in a while. Under such circumstances, if a decent cheaper owner-occupied dwelling can be found, moving is an appropriate strategy. This means that the householders remain outright owners with reduced housing expenses, and only reduce the amount of housing wealth to some extent. Another option emerges if rental housing is regarded as acceptable housing, in which case moving into the rental sector also becomes an acceptable strategy. However, while the full value of housing wealth can be consumed, the drawback is that housing expenses are no longer reduced. Compared to moving to a cheaper dwelling, this option is usually perceived as less attractive.

An 'equity-release-strategy' is also appropriate if leaving a bequest is unimportant and if households do not expect sudden changes in public welfare provision. In this research the focus has been on mortgage-equity release products, yet if equity release schemes are offered by non-profit or government organisations they seem to be perceived as more acceptable. These types of options deserve further investigation. The risks and additional costs of equity release schemes are estimated to be lower if they are offered by non-profit and governmental organisations, in comparison to commercial mortgage lenders. However, if mortgage lenders offer reverse mortgages, if households trust mortgage lenders and if they do not have an aversion to mortgage debts these products can also be an option. In the case of a reverse mortgage, monthly mortgage expenses do not apply; however, the monthly interest is added to the loan. Accordingly, the amount of the loan increases more and more rapidly and hence housing wealth is reduced.

On the basis of the life-cycle theory it had been suggested that the availability of reverse mortgages (mortgage-equity release products) would generally enhance an equity release strategy. Figure 9.1 shows that this is not self-evident. The strategy is not necessarily in line with the norms and customs of various countries. In other words, the strategy of mortgage-equity release can face a high level of resistance. In such cases, other strategies might fit better with the specific formal and informal institutions – in other words, households can choose strategies with less resistance.

When elaborating on the role of owner-occupation in household strategies, Kemeny focused on the strategy of reducing housing expenses and using housing wealth as a nest egg (move-and-consume and equity-release-strategy). This research adds 'the family-support-for-bequest-strategy' to the theory. Furthermore, it reveals various dimensions that need to be taken into account when considering the potential role of owner-occupation in different countries and in the strategies of different households.

The literature indicated that informal institutions change most slowly and have an impact on formal institutions. Should policymakers consid-

er including owner-occupation in their old-age welfare policies, it would be recommendable that they take into account existing norms and customs in the country. Figure 9.1 should be further developed, elaborated and tested and could be used to help explore viable roles for owner-occupation. In the UK, the inclusion of housing wealth in welfare policies resulted in strong negative opinions among the British interviewees. They perceived it as unfair that housing wealth was part of an assets test which calculated personal contributions for long-term care in old age. Additionally, there were reports that British households were involved in asset dumping, to ensure that their housing assets were out of reach of government policies (Elsinga *et al.*, 2010). Informal institutions might explain this reaction.

9.4 The future role of housing wealth in retirement strategies

What might be the future role of housing wealth in retirement strategies in a context of welfare restructuring? As set out in the introduction, most of the thinking about the role of housing wealth in a context of welfare state restructuring originates from Anglo-Saxon countries, and within Europe, specifically the UK. Some theorists suggest that generally, throughout Europe, owner-occupation will become a cornerstone of welfare policy, as it is becoming in the UK (Groves *et al.*, 2007). Housing policies that encourage households to enter owner-occupation might be regarded as ‘housing-asset-based’ welfare policies, according to which households would be offered the possibility of investing in owner-occupation, with the chance of profiting from their housing assets in old age. Consequently, if state pensions were insufficient to maintain a household’s living standard it might use options such as reverse mortgages to cash in and consume housing wealth. The European Commission, in its most recent Green Paper on pensions, briefly mentions the option of facilitating reverse mortgages to allow national governments to release some pressure on their pension systems. Here, I will attempt to answer the question of whether housing-asset-based welfare and reverse mortgages actually accord with the institutions in the various countries examined in this study.

9.4.1 A societal perspective

To start with, it seems that, generally speaking, owner-occupation cannot play a role in the financial strategies of the most deprived elderly. The interviews and statistics on the risk of poverty among older tenants and owner-occupiers illustrated that financial need in retirement is most likely to be lower among owner-occupiers than among tenants. Hence, those who most need a private safety net are least likely to be owner-occupiers, with housing wealth

and reduced housing expenses. This inequality has also been found in other studies. For example, in Australia, owner-occupation is regarded as the cornerstone of old-age welfare. Over 80 percent of people of retirement age own their dwelling, with most being outright owners and it was found that in retirement tenants are harder hit by reductions in state pensions than owner-occupiers (Yates & Bradbury, 2010). In the UK, Malpass calls this role of owner-occupation in welfare an amplifier of inequality (Malpass, 2006). In the context of setting out ideas on asset-based welfare policies, Sherraden also emphasised the importance of including the poor in a manner that avoids increasing inequality (Sherraden, 1991).

The findings of this study also suggest that emerging inequalities would not necessarily be resolved satisfactorily by making all households owner-occupiers. Purchasing a dwelling does not in the first place serve as a pension base, it serves the primary need of giving households a stable and decent place to live. Owner-occupation is typically risky and hence not necessarily 'stable' under all conditions or for all households. In times of job or relationship instability owner-occupation can be highly volatile. This is even more so if it coincides with a substantial mortgage debt and unfavourable housing market developments. Moreover, research has shown that owner-occupation is typically more risky for low-income households (Shlay, 2006). They typically purchase a dwelling in 'cheaper' neighbourhoods, where house prices develop less favourably (Turner & Luea, 2009). Households with lower incomes more often have difficulties saving enough to provide a financial buffer, for example, to cover maintenance costs (to maintain decent housing) or to be able to cope with financial emergencies throughout the life cycle (to ensure stable housing) (Wärneryd, 1999). Moreover, from an economic point of view it is risky if households invest such a large part of their means in one type of asset – that is, housing (Smith, 2008). Finally, the interviews suggested that households in the lower segment of the owner-occupied sector normally have the least desirable options when it comes to cashing in and consuming housing wealth.

9.4.2 The perspective of owner-occupiers

Above all, owner-occupiers regard their housing asset as a 'home'. A stable and decent roof over one's head is perceived to be an essential part of household living standards. Thus, cashing in and consuming housing wealth will, in the case of selling, often imply 'losing' a certain living standard or, in the case of mortgage-equity release, would imply putting one's standard of living 'at risk'. The most comfortable way for households to include owner-occupation in their financial strategy for old age seems to be by reducing housing expenses.

As mentioned above, the European Commission has presented reverse

mortgages as an option for individual households beyond the pension, to release some of the pressure on pension systems (European Commission, 2010). In the UK, the mortgage market plays a dominant role in the views on how housing-asset-based welfare might function. However, policymakers should be aware that equity release can severely undermine family relationships, family support and intergenerational transfers. In a number of countries, the housing asset was a central element in the family's asset portfolio – the family safety net. In old age it could be traded within the family for care and support. Mortgage-equity release products in these countries are often regarded as unethical because children or family members expect an inheritance and rely on this for their future financial wellbeing. In all countries it seems to be common practice to leave the dwelling as a bequest.

However, even if the bequest motive is relatively unimportant, households are cautious about cashing in and consuming housing wealth. This is perceived as less problematic if housing markets are dynamic and house prices develop favourably. Selling can be part of a strategy if households are used to moving house and if they think in terms of a housing ladder. Mortgage-equity release products have developed in various countries only where house prices have developed favourably. Thus, in Hungary, for example, it appears that mortgage lenders only provide reverse mortgages to households in Budapest, where the housing market does well, whereas they do not provide them in the rural areas, where house prices are volatile. Clearly, opportunities for cashing in and consuming housing wealth are related to housing market developments. Moreover, in relation to future housing market developments, the effects of an aging population should also be taken into account. Demographic changes not only impact on the affordability of pensions and old-age care, but also change the dynamics of the housing market. If the population shrinks, house prices tend to decrease. Another development is the introduction of Basel III after the global financial crisis. The new regulations restrict mortgage lending, and because house prices and mortgage lending are positively related, Basel III might have an unfavourable effect on the housing market as well. In this case, opportunities to cash in and consume housing wealth are likely to decline to some extent if solely dependent on the market.

Therefore, if policymakers consider it important that retired owner-occupiers are able to cash in and consume their housing wealth it seems recommendable to not only explore the potential role of financial institutions but also the role of other existing formal institutions, such as those involved in the rental sector and non-profit organisations. For owner-occupiers in the lower segment of the housing market in particular, a rental sector that offers stable and decent housing would provide a valuable alternative, allowing them to cash in their housing asset through selling if necessary. Also, if older owner-occupiers experience maintenance as a burden, the rental sector can be an attractive alternative. In countries where an acceptable rental sector

already exists, policymakers could facilitate owner-occupiers to cash in and consume their housing wealth by further developing the rental sector. Chapter 5 found that younger households in various countries find investment in rental properties an attractive form of private pension saving, which suggests that it would perhaps be worthwhile to further explore the potential of such properties to expand the options of older owner-occupiers with respect to cashing in and consuming their housing wealth.

Another option that needs consideration is what non-profit and government organisations can do to provide opportunities for equity release. Owner-occupiers might consider equity release products more seriously if they were offered by governmental agencies or by non-profit groups. There seems to be more trust in these parties compared to banks or insurance companies.

Finally, when it comes to reverse mortgages, trust in mortgage lenders seems to be a critical factor. Governments could influence the level of trust by regulating the market to a greater or lesser extent. At the same time, governments should be aware that if trust is higher and the aversion to mortgage borrowing lower, households might be tempted to use mortgage-equity withdrawal in earlier phases of the life cycle. Consequently, they might accumulate less housing wealth than current retirees.

9.4.3 The perspective of inheritors

The last potential role of housing wealth in the context of old-age welfare restructuring to be discussed here concerns the strategies of inheritors. Due to increasing longevity, housing wealth now tends to be left as a bequest to householders who are themselves approaching retirement. Owner-occupiers find it unpleasant to use their housing wealth, while inheritors often already have a stable and decent place of their own and do not feel the same requirement to cash in and consume inherited housing wealth. Obviously, just as owner-occupation tends to raise the level of inequality between tenants and owner-occupiers, inheritance will similarly raise the level of inequality between households with owner-occupier parents and those without.

9.4.4 The perspectives of different age groups

Younger people seem to have a different attitude towards saving and borrowing than older people. Partly this is due to their 'age', young people have other income prospects than older people. However, partly this difference seems also be due to a cohort effect: younger generations seem less careful (spend/borrow more, save less) as they and often their parents have not experienced financial hardship in the same way as older generations have (e.g. war-time, times of unemployment, times of poverty). This suggests that the younger cohorts might be more likely to cash in and consume their housing wealth. The

younger generations also tend to expect less of the state and more own financial responsibility for retirement. One question is to what extent the young are able to save for retirement. The attitude change in saving among the younger generations suggests that they might have difficulties saving for this moment in the life cycle that is far beyond their time horizon. The other question is to what extent housing wealth will have the same potential for them as it has for the current older generation. House price increases have made the latter asset-rich, it is uncertain whether younger generations will similarly gain from the housing market.

9.5 Future research

An important next step to further investigate current findings is to measure the frequency of the use of various strategies by the elderly or apparent in the planning of younger households in various countries, and to find ways to identify and measure relevant formal and informal institutions on a large scale. The central question is: Do households indeed choose the lines of least resistance as suggested in Figure 9.1? Can the frequency of use of the different strategies in the various countries indeed be explained by relevant institutions?

In addition, the relationships between formal and informal institutions should be further explored. What aspects of states, non-profit organisations and markets influence or are influenced by informal institutions? The interviewees made links between their perceptions and formal institutions, and local research teams also came up with relevant factors; however, these relationships need more systematic investigation. For example, what is the impact of house price increases and mobility in the housing market on the role of owner-occupation in a household's financial strategy for old age? What are the causes of more or less trust in mortgage lenders? In Germany, the government encourages personal pension saving, and one way to use these savings is by purchasing a dwelling (*Riester-Rente*). Owner-occupation might be on the increase in this country due to welfare state restructuring, making Germany an interesting country for further study.

Another vital topic in the context of old-age welfare restructuring is the impact of housing policy on the level of inequality between retired owner-occupiers and tenants in the various countries. Housing policy impacts on the financial wellbeing of households in old age. In the Netherlands, the tax deductibility of mortgages appears to have a decisive influence, enlarging the gap between tenants and owner-occupiers. Is housing policy in other countries also increasing the gap between tenants and owner-occupiers or making it smaller? This gap should be considered both in terms of income after housing expenses and in terms of assets.

The introduction of mortgage-equity release products in many countries has changed the typical patterns of saving and the way housing wealth is consumed. The process of accumulating housing wealth up to outright ownership in old age is no longer self-evident. Households who have used mortgage-equity release during their life cycle appear more willing to consider using mortgage-equity release in retirement. In many countries where the mortgage market is highly developed, younger households seem more open to additional mortgage borrowing than older households. Moreover, people who face financial hardship seem to use mortgage-equity withdrawal significantly more often than people who do not experience hardship (see Chapter 8). It is unclear how mortgage-equity release during the life cycle in various countries impacts on the accumulation of housing wealth as households approach old age. Are younger generations still on their way to outright ownership in retirement? In the Netherlands, retirees are less and less likely to be outright owners and house prices have become crucial to the accumulation of housing wealth. To what extent is this also the case in other countries? The concept of an 'Equity-to-Value ratio' (as introduced in Chapter 8) could be used to investigate this. In this regard, a further question concerns the extent to which indebted retirees are at risk of losing their stable and decent housing.

Finally, when it comes to understanding cashing in and consuming housing wealth, bounded rationality of households repeatedly appears relevant. In this study behavioural economic concepts such as loss aversion, time horizons and precautionary motives have been mentioned. Their importance seems to depend strongly on the national context and definitely needs further elaboration and more systematic investigation.

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Samenvatting

Het eigenwoningbezit als pensioensvoorziening

Naar een beter begrip en nieuwe hypothesen

Janneke Toussaint

Dit proefschrift gaat over de rol van het eigenwoningbezit in de context van een veranderende verzorgingsstaat. Ontwikkelingen zoals globalisering van economieën, de toenemende vergrijzing, veranderingen op arbeidsmarkten en ongunstige economische ontwikkelingen maken in Europa hervormingen van de verzorgingsstaat en in het bijzonder de oudedagsvoorzieningen noodzakelijk. Het ziet ernaar uit dat individuele huishoudens hun financiële strategieën moeten aanpassen om grotere inkomensrisico's te kunnen opvangen.

De koopwoning is doorgaans het belangrijkste aandeel in de vermogensportefeuille van individuele huishoudens en heeft daarom de aandacht van wetenschappers en beleidsmakers. In de Europese Unie (EU) woont 66 procent van de huishoudens in een koopwoning (European Mortgage Federation, 2009). Deregulering van de hypotheekmarkten speelde de afgelopen decennia een belangrijke rol in de groei van het eigenwoningbezit. Daarnaast bieden hypotheekverstrekkers – vooral in landen waar huizenprijzen zijn gestegen – producten aan waarmee eigenaar-bewoners vermogen aan hun woning kunnen onttrekken. Deze ontwikkelingen suggereren dat het vermogen in de woning als onderdeel van de financiële strategie van eigenaar-bewoners wel eens belangrijker zou kunnen worden in de toekomst.

1 De bestaande theorie

Drie theorieën vormen de basis van waaruit ik mijn onderzoek ben gestart.

De levenscyclustheorie: Sparen en ontsparen

De eerste is de levenscyclustheorie over spaar- en consumptiegedrag (Modigliani & Brumberg, 1954). De kerngedachte is dat mensen sparen voor financieel moeilijke tijden en voor hun pensioen. Ze streven ernaar hun inkomen gedurende de levenscyclus zo constant mogelijk te houden. In een goed functionerende kapitaalmarkt zullen jonge mensen lenen, want zij hebben relatief lage inkomens; mensen in het midden van de levenscyclus zullen sparen, want zij hebben relatief hoge inkomens; en op hun oude dag zullen mensen ontsparen, omdat ze weer relatief lage inkomens hebben. Het opbouwen van vermogen in de woning volgt in zekere zin ook de levenscyclustheorie. Jonge mensen nemen een hypotheek, langzamerhand bouwen ze vermogen op, en op hun oude dag hebben ze de hypotheek normaliter afgelost. Echter,

op hun oude dag consumeren mensen het vermogen in de woning niet volgens de levenscyclustheorie. Een belangrijke reden is dat de woning in principe illiquide is: eigenaar-bewoners moeten verhuizen naar een goedkopere woning of huurwoning om het vermogen te gelde te maken. Deze reden kan echter in belang afnemen nu er nieuwe mogelijkheden zijn om het vermogen te consumeren zonder te verhuizen. In verschillende Angelsaksische landen worden deze nieuwe producten equity release schemes genoemd (Reifner et al., 2009). Er zijn verschillende soorten producten, in dit boek richt ik me vooral op de 'opeethypotheek'. Dit product biedt eigenaar-bewoners die de hypotheek volledig hebben afgelost de mogelijkheid om de levenscyclustheorie te volgen en het vermogen op de oude dag te consumeren. Ze onttrekken dan een deel van het vermogen in de woning om hun inkomen mee aan te vullen. De rente die normaal gesproken maandelijks wordt betaald, wordt nu bijgeschreven bij de lening. De lening plus de rente wordt terugbetaald als het huis wordt verkocht. Dit kan zijn als eigenaar-bewoners komen te overlijden of besluiten te verhuizen.

Kemeny: een koopwoning voor de oude dag

Al in 1981 schreef Jim Kemeny over een relatie tussen het eigenwoningbezit en verzorgingsstaten (Kemeny, 1981). Hij merkte op dat in landen waar de verzorgingsstaat minder genereus was, meer mensen een woning in hun bezit hadden. Eigenaar-bewoners hebben op hun oude dag normaliter hun hypotheek afgelost en hebben daarom ten opzichte van huurders relatief lage woonlasten. Kemeny (2005) suggereert dat het eigenwoningbezit wel eens zou kunnen groeien doordat er in verschillende EU-lidstaten ingrijpende veranderingen plaatsvinden op het gebied van de oudedagsvoorzieningen. Jonge mensen die onzekerheid percipiëren over hun toekomstige pensioeninkomen zouden daarom vaker een woning willen kopen als manier om vermogen op te bouwen en woonlasten te reduceren.

De koopwoning als onderdeel van het verzorgingsstaatsbeleid

De derde theorie kijkt naar de manier waarop het eigenwoningbezit een rol zou kunnen spelen in overheidsbeleid. Beleid dat mensen stimuleert om te sparen wordt ook wel 'asset-based welfare policies' genoemd. De bedenker, Sherraden (1991), ziet de introductie van zulk beleid als een stap die goed past in de geschiedenis en cultuur van de Verenigde Staten. In het Verenigd Koninkrijk heeft de overheid Sherradens plannen echter ook omarmd en het eigenwoningbezit ingezet als een van de spaarinstrumenten. Het meeste onderzoek naar de rol van het eigenwoningbezit in financiële strategieën van huishoudens is dan ook hier uitgevoerd. De Britse overheid stimuleert niet alleen het opbouwen van vermogen, ze faciliteert ook de consumptie ervan door de financiële markt hierin de vrije hand te geven. Kortom, de Britse overheid probeert condities te scheppen waarin huishoudens het vermogen in de

woning kunnen consumeren volgens de levenscyclustheorie. Ook de Europese Commissie blijkt hierin geïnteresseerd. Zij stelt in haar beleidsnota Groenboek – naar adequate, houdbare en zekere Europese pensioenstelsels (European Commission, 2010) voor dat wellicht opeethypotheke de druk op nationale pensioensystemen kunnen verlichten.

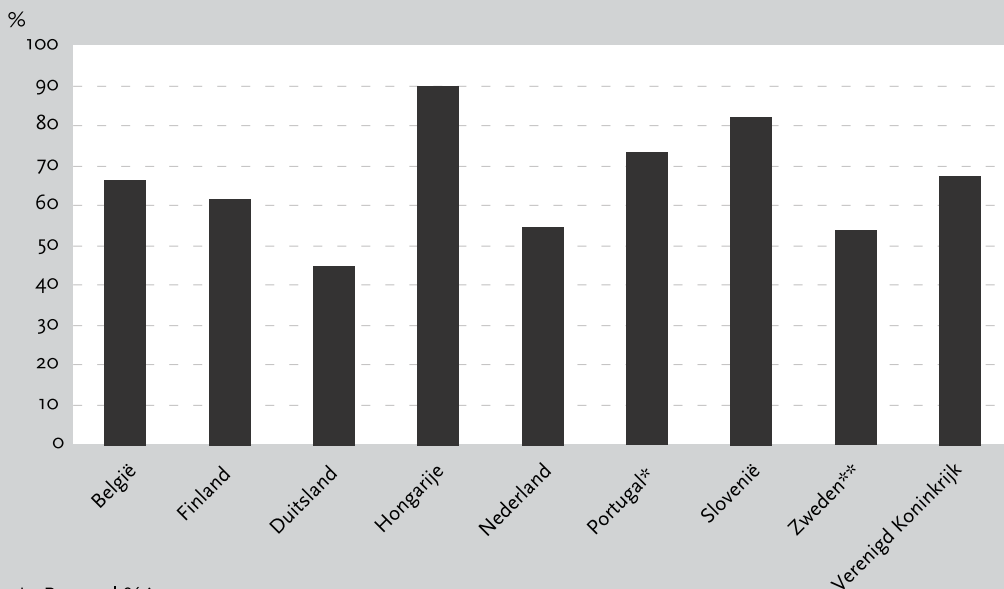
Uit bovenstaande literatuur blijkt dat veel ideeën, concepten en toekomstscenario's waarin het eigenwoningbezit een rol speelt in de verzorgingsstaat afkomstig zijn uit Angelsaksische landen. Sherradens spaarbeleid zou in het bijzonder passen in de Amerikaanse context. De Britse overheid gaf haar eigen invulling aan asset based welfare en stimuleerde ook het eigenwoningbezit als manier van sparen. Het concept equity release scheme komt uit de Angelsaksische landen. Echter, nu klinkt eenzelfde geluid door in de Europese Commissie. De vraag is echter of opeethypotheke wel passen in de context van andere Europese landen.

2 Onderzoeksaanpak

Het probleem is dat we weinig inzicht hebben in welke rol het eigenwoningbezit speelt in de financiële strategie van inwoners van verschillende EU-lidstaten. Er is vooral weinig inzicht de consumptie van het vermogen in de woning. Het doel van mijn onderzoek is om bij te dragen aan een beter begrip van de rol van het eigenwoningbezit in verschillende EU-landen om daarmee de theorie te versterken en beleidsmakers van bredere kennis te voorzien. De veronderstelling is dat de manier waarop huishoudens het vermogen in de woning gebruiken, in de verschillende EU-lidstaten uiteenloopt. Dit komt doordat de institutionele contexten in deze landen behoorlijk verschillend zijn. Een belangrijk verschil is bijvoorbeeld het aandeel eigenwoningbezit in de verschillende landen (zie figuur 1). Huishoudens hebben hun strategieën aangepast aan het bestaande verzorgingsstaatbeleid, het pensioenstelsel, de woningmarkt, het woningmarktbeleid, en tenslotte de hypotheekmarkt. Bovendien spelen niet alleen overheid en markt een rol in de strategieën, maar kunnen ook familieleden en non-profitorganisaties daarin belangrijk zijn. In dit onderzoek relateer ik strategieën van huishoudens aan relevante aspecten van de diverse nationale contexten.

Onderzoeksvragen

Om inzicht te krijgen in nieuwe verbanden formuleer ik drie vragen: (1) Waarom beslissen huishoudens om te kopen: zijn veranderingen in de verzorgingsstaat deel van hun overwegingen? (2) Op welke manier zien huishoudens hun woning als onderdeel van de financiële strategie en wat zijn hun overwegingen? (3) Onder welke omstandigheden willen huishoudens het vermogen in de woning consumeren?

Figuur 1 Percentage eigenwoningbezit in 9 Europese landen in 2004

* Portugal % in 2000.

** Zweden % eigenwoningbezit plus coöperatieve woningen.

Bron: Dol & Haffner 2010

Percepties van huishoudens

De percepties van huishoudens staan centraal in mijn onderzoeksplan. Ze dragen op drie manieren bij aan betere kennis. Ten eerste bieden ze inzicht in hoe mensen typisch denken over het eigenwoningbezit, in hoeverre mensen de woning beschouwen als een investering en op welke manier de woning een belangrijke plaats inneemt in de financiële strategie. Ten tweede laten percepties van huishoudens zien hoe het eigenwoningbezit is ingebed in de context van een land, dus hoe bijvoorbeeld het fiscale beleid en het pensioenstelsel een rol spelen. Ten derde geven percepties van huishoudens inzicht in de normen en gebruiken in een land. Normen en gebruiken blijken constante factoren, ze worden gedeeld in een samenleving en van generatie op generatie overgegeven. Bovendien hebben ze een belangrijke invloed op beleid en op toekomstige beleidsveranderingen (Williamson, 2000).

3 Data en methodologie

Twee Europese projecten – gefinancierd door de Europese Commissie – staan aan de basis van dit proefschrift. Daarnaast heb ik in Nederland een telefonische enquête uitgevoerd.

Landenvergelijking

De aanpak van de twee Europese projecten was vergelijkbaar (zie ook hoofdstuk 1 van dit boek). In acht landen schreven onderzoekspartners een rapport over de institutionele context en werden 30 huishoudens geïnterviewd. Dit was het maximale aantal dat de Europese Commissie wilde financieren. De

onderzoekspartners analyseerden vervolgens de interviews en trachtten de uitkomsten zo goed mogelijk in verband te brengen met de context van hun land. Dit laatste heb ik samen met mijn begeleider, Marja Elsinga, voor Nederland gedaan (zie hoofdstuk 6). Een volgende belangrijke stap was het vergelijken van de landenrapporten op de verschillende onderwerpen. Uitkomsten van deze vergelijking staan in de verschillende hoofdstukken (zie hoofdstukken 2, 3, 4, 5) van dit boek beschreven.

Enquête in Nederland

De telefonische enquête in Nederland is methodologisch gezien een ander onderdeel van dit proefschrift. Op basis van mijn kennis van de uitkomsten van het eerste Europese project heb ik een vragenlijst ontwikkeld. Het doel was om interviewuitkomsten en interpretaties kwantitatief te toetsen. De analyses zijn gebaseerd op 896 voltooide enquêtes, met een response van 51 procent. Eigenaar-bewoners en huurders in verschillende leeftijdsgroepen zijn ondervraagd. Op basis van deze data heb ik onderzocht hoe pensioenverwachtingen en percepties van het eigenwoningbezit samenhangen (hoofdstuk 7). Daarnaast heb ik onderzocht in hoeverre Nederlandse eigenaar-bewoners vermogen in de woning opbouwen (hoofdstuk 8).

Het proefschrift bestaat uit twee delen. Het eerste deel, de hoofdstukken 2 tot en met 5, zijn landenvergelijkingen. Het tweede deel, de hoofdstukken 6 tot en met 8, gaan over Nederland. Ik ga nu, in deze samenvatting, verder met een beknopt overzicht van de belangrijkste uitkomsten. Ten slotte ga ik in op de vraag of en hoe het eigenwoningbezit een oplossing kan zijn voor nationale overheden en op welke manier het een rol kan spelen in de pensioenstrategie van huishoudens in verschillende EU-lidstaten.

4 De bevindingen

Per onderzoeksvraag geef ik de belangrijkste bevindingen.

1 Verandering verzorgingsstaat als motivatie koopwoning?

Alleen in Duitsland

De interviews suggereren dat in de meeste landen andere argumenten dan veranderingen in de verzorgingsstaat doorslaggevend zijn als huishoudens ervoor kiezen om een woning te kopen. Ze zoeken naar een woning die qua type, prijs en kwaliteit past bij de wensen en bij de levensstandaard die huishoudens zich op basis van hun inkomen en vermogen kunnen veroorloven. Daarnaast hebben huishoudens graag controle over de woonduur. In verschillende landen blijkt op basis van deze argumenten de huursector geen acceptabel alternatief voor het eigenwoningbezit. Dit is zeker zo als het gaat om een woning voor de langere termijn. Er is één land dat zich werkelijk onder-

scheidt van de andere landen en dat is Duitsland. Ook al willen de meeste Duitse geïnterviewden op de lange termijn ook graag een woning kopen, de huursector (met 57 procent van de totale woningvoorraad) biedt hier wel een acceptabel alternatief. Het is dan ook in Duitsland waar een bredere afweging wordt gemaakt bij de keuze tussen huren en kopen. Dat de woning een investering voor de oude dag betekent wordt door geïnterviewden genoemd als argument om te kopen. Deze bevinding bevestigt Kemenys redenering voor Duitsland. Verder onderzoek zal moeten uitwijzen of het eigenwoningbezit in Duitsland hierdoor ook zal groeien, zoals Kemeny veronderstelt.

2 Op welke manier onderdeel van de financiële strategie?

Als financiële buffer in alle landen

Terwijl de beslissing over de aankoop van een woning in de meeste landen geen sterk verband houdt met verwachtingen over ouderdagsvoorzieningen, beschouwen oudere eigenaar-bewoners hun woning wel als een waardevolle financiële buffer. Uit de telefonische enquête in Nederland bleek dat het eigenwoningbezit voor de oude dag vooral belangrijk werd gevonden door respondenten zonder arbeidsgerelateerde pensioenen, zelfstandigen en mensen met lagere inkomens. Dit zijn in Nederland de huishoudens die kwetsbaar zijn als het gaat om pensioeninkomen. Daarnaast blijkt uit de landenvergelijking dat het eigenwoningbezit belangrijker is in de percepties van huishoudens naarmate verzorgingsstaten en pensioenen minder genereus zijn. De interviews bevestigen Kemenys veronderstellingen. Echter, de manier waarop huishoudens vermogen in de woning opbouwen blijkt in Nederland anders dan in de andere landen. Daarnaast vinden we twee strategieën die nog geen deel uitmaken van de bestaande theorie.

Minder vermogen in woning opgebouwd in Nederland

Nederland blijkt een uitzondering als het gaat om het opbouwen van vermogen in de woning. Oudere eigenaar-bewoners hebben steeds vaker een hypotheekschuld op hun oude dag. Dit is mogelijk door de hypotheekrenteaftrek die hypotheekschulden goedkoop maakt en door de vooralsnog genereuze pensioenen waarmee huishoudens de hypotheeklasten goed kunnen dragen. Ik introduceer in hoofdstuk 8 het concept Equity-to-Value ratio (ETV). Dat staat voor het opgebouwde vermogen in de woning als aandeel van de waarde van de woning. De gemiddelde eigenaar-bewoner in de leeftijdsgroep van 65 jaar en ouder heeft een ETV van 78 procent. Deze bevinding is niet in overeenstemming met de veronderstellingen van de levenscyclustheorie. Nederlandse huishoudens lossen de hypotheek dus niet altijd af.

Familie: erfenis-in-ruil-voor-steun-strategie

Vervolgens vinden we een alternatieve strategie waaraan in de bestaande theorie nog geen aandacht wordt besteed. In landen waar het belangrijk wordt

gevonden om de woning na te laten aan kinderen of kleinkinderen, geven erfenamen in ruil vaak steun aan de oudere eigenaar-bewoners. Meestal zijn dit (klein)kinderen, maar soms ook andere personen. De woning is een beloning voor degene die zorg verleent of financiële steun biedt. In Hongarije maken huishoudens hier zelfs contracten voor op. Deze erfenis-in-ruil-voorsteun-strategie was het meest uitgesproken in Hongarije, Slovenië en Portugal, maar was ook te bespeuren onder sommige huishoudens in andere landen.

Afzien van onderhoud aan woning

Een andere strategie die uit de interviews naar voren kwam was minder geld en energie besteden aan het onderhoud van de woning. Voor ouderen kan onderhoud een grote last zijn, zowel fysiek als financieel. In Zweden en Nederland kunnen geïnterviewden zich daarom voorstellen om op de oude dag naar de huursector te verhuizen. In de andere landen in deze studie is de verhuizing naar de huursector minder goed voorstelbaar. Zij kunnen stoppen met het onderhouden van de woning. Het gevolg daarvan is dat de waarde van de woning kan dalen.

3 Consumptie vermogen in de woning?

Als noodmaatregel

Geïnterviewden zien het vermogen in de woning doorgaans niet als spaarpot waarmee ze hun inkomen gedurende de oude dag zo constant mogelijk kunnen houden. Het is een buffer die huishoudens kunnen gebruiken als er geen andere oplossing meer is. Echter, er blijken hierover verschillende normen in verschillende landen te bestaan.

Het belang van het nalaten van een erfenis

De belangrijkste factor blijkt het belang van de erfenis. In de landen waar de erfenis-in-ruil-voorsteun-strategie vaak voorkomt, zoeken huishoudens allerlei soorten uitwegen om het vermogen in de woning maar niet te hoeven consumeren. Oudere huishoudens in bijvoorbeeld Hongarije kunnen zich voorstellen de woning te verhuren, terwijl ze zelf bij hun kinderen gaan wonen. In veel landen is het een gewoonte om de woning aan de kinderen na te laten. Zelfs in Nederland – het land waar mensen het minste belang hechten aan steun van (groot)ouders aan volwassen kinderen – kunnen sommige geïnterviewde ouderen zich om deze reden moeilijk voorstellen dat ze het vermogen zullen consumeren. Toch is er in de landen waar het nalaten van een erfenis minder belangrijk is, meer interesse in consumptie.

Veel veranderingen in de verzorgingsstaat – niet consumeren

De redeneerlijn in de levenscyclustheorie en van de Europese Commissie is dat consumptie van het vermogen in de woning een oplossing kan zijn bij

versobering van de pensioenen. De interviews laten echter zien dat als huishoudens meer onzekerheid over toekomstig beleid ervaren, ze juist nog sterker gemotiveerd zijn om het vermogen in de woning behouden als appel voor de dorst. Veranderingen in de verzorgingsstaat leiden tot de gedachte dat beleid in de toekomst vaker zou kunnen veranderen, en geven daarom meer onzekerheid over de toekomst en dus een grotere gepercipieerde noodzaak voor een financiële buffer.

Verhuizen meer vanzelfsprekend in het ene land dan in het andere

Als geïnterviewden nadenken over consumptie van het vermogen in de woning, geven ze over het algemeen de voorkeur aan verhuizen boven een opeethypotheek. Echter, een verhuizing als eigenaar-bewoner is in sommige landen heel uitzonderlijk; terwijl dit in andere meer gebruikelijk is. De norm in Duitsland is om één keer een woning te kopen en daar voor de rest van het leven te blijven wonen. Geïnterviewden in het Verenigd Koninkrijk daarentegen spreken over een woningladder: ze beginnen op jonge leeftijd in een relatief goedkope woning en verhuizen naarmate ze ouder worden naar duurdere woningen. In het Verenigd Koninkrijk is het daarom makkelijker voor te stellen om te verhuizen op de oude dag (een stapje naar beneden op de woningladder) dan in Duitsland.

Verhuizen acceptabel voor huishoudens in het hogere segment van de woningmarkt

Huishoudens die het vermogen in de woning te gelde willen maken door te verhuizen, zoeken naar een geschikte goedkopere koopwoning of naar een huurwoning. Het liefst verhuist men naar een goedkopere koopwoning. De geïnterviewden met een woning in het hogere segment van de markt zien meer mogelijkheden, dan geïnterviewden met een woning in het lagere segment. Deze laatste groep geeft aan dat het moeilijk zal zijn een acceptabele woning te vinden in een redelijke woonomgeving, die tegelijkertijd de mogelijkheid biedt om een substantiële hoeveelheid van het vermogen te gelde te maken. De huursector is slechts in een beperkt aantal landen (Duitsland, Nederland, Zweden) een acceptabel alternatief voor het eigenwoningbezit.

Opeethypotheek aantrekkelijker bij vertrouwen in hypotheekverstrekkers

In alle landen geven geïnterviewden blijk van wantrouwen in hypotheekverstrekkers en in de opeethypotheek. Ze stellen vragen over de kosten en veronderstellen soms dat delen van de kosten niet transparant zullen zijn. Andere geïnterviewden denken dat verstrekkers de waarde van de woning niet op een eerlijke manier zullen bepalen. Ook zijn er zorgen over de consequenties van een groeiende hypotheekschuld en over wat er gebeurt als de deze groter is dan de waarde van de woning. Kunnen mensen dan in de woning blijven wonen, of heeft het wellicht consequenties voor de kinderen? Opvallend is dat in landen waar de opeethypotheek, of een variant hierop, wordt aangeboden

door een overheidsinstantie of non-profitorganisatie, er meer interesse is.

Opeethypotheek als hypotheekschuld acceptabel is

De normen ten aanzien van hypotheekschulden blijken zeer verschillend tussen landen. In bijvoorbeeld Finland en Duitsland bestaat er een sterke overtuiging dat men hypotheekschulden zo snel mogelijk en in ieder geval vóór pensionering moet aflossen en daarna vooral niet opnieuw een schuld moet aangaan. In Nederland en het Verenigd Koninkrijk hebben geïnterviewden echter minder moeite met het aangaan van hypotheekschulden. In Nederland, op basis van de telefonische enquête, vond ik dat eigenaar-bewoners die al eens een extra hypotheek opnamen, significant vaker interesse hadden in een opeethypotheek op de oude dag. Deze bevinding roept de vraag op in hoeverre mensen die tijdens hun werkzame leven vermogen aan de woning hebben kunnen onttrekken, nog vermogen in de woning hebben opgebouwd op hun oude dag.

5 Het eigenwoningbezit als oplossing voor druk op pensioenen

Ik ga nu in op de vraag of en hoe het eigenwoningbezit een bijdrage kan leveren aan het beperken van overheidsuitgaven.

Consumptie vermogen woning voelt als verlies

Voor eigenaar-bewoners biedt de woning een thuis, een bepaalde levensstandaard, en die willen gepensioneerd in principe niet graag verliezen. Een verhuizing of een opeethypotheek betekent verlies of het riskeren van de levensstandaard. Eigenaar-bewoners geven er dan ook de voorkeur aan om dit te voorkomen. Ondertussen genieten ze normaliter al van een financieel voordeel: ze hebben relatief lage woonlasten.

Consumptie door opeethypotheek ondermijnt rol van familie

De Europese Commissie presenteerde de opeethypotheek als een oplossing, maar in sommige landen zal dit de solidariteit tussen familieleden ondermijnen. In verschillende EU-lidstaten blijkt de erfenis-in-ruil-voor-steun-strategie van belang. In deze landen wordt de opeethypotheek als onethisch beschouwd. De (klein)kinderen rekenen op de steun van (groot)ouders.

Functioneren woningmarkt van cruciaal belang bij consumptie

Als de erfenis minder belangrijk is, is consumptie meer acceptabel. Echter, de mogelijkheden vallen of staan bij het functioneren van de woningmarkt. Het verkopen van een woning is niet overal even gemakkelijk. Opeethypotheeken blijken vooral te worden aangeboden daar waar huizenprijzen zich gunstig

ontwikkelen. De vergrijzing heeft een negatief effect op de woningprijzen. In Duitsland lijdt de woningmarkt al onder de krimp van de bevolking; in sommige gebieden is het moeilijk om een woning te verkopen. Daarnaast heeft de wereldwijde economische crisis gevolgen voor de hypotheekmarkten in alle landen. Toezichthouders en centrale banken zijn tot het akkoord gekomen dat banken meer eigen vermogen moeten aanhouden om een nieuwe crisis te voorkomen. De nieuwe voorstellen, opgeschreven onder de naam Basel III, zetten een rem op de hypotheekverstrekking. Hypotheekverstrekking en huizenprijzen correleren positief. Op basis van deze redenering lijkt het erop dat de mogelijkheden tot consumptie op de markt zullen afnemen.

Verken de rol van non-profits en overheidsgerelateerde organisaties

Als beleidsmakers het belangrijk vinden dat oudere eigenaar-bewoners het vermogen in de woning toch te gelde kunnen maken, is het raadzaam om te kijken naar de bestaande instituties. Vooral de huishoudens in het lagere segment van de woningmarkt zijn gebaat bij een acceptabele huursector die woningen biedt van een redelijke kwaliteit en waarin de woonduur bepaald kan worden door de bewoner. Dat verhuurders het onderhoud verzorgen is een aantrekkelijke factor. Een andere rol die bestaande instituties kunnen spelen is het aanbieden van *equity release schemes*. In landen waar deze worden aangeboden door non-profit of overheidsgerelateerde instanties, hebben oudere eigenaar-bewoners meer vertrouwen en lijken ze meer geïnteresseerd.

Reduceer wantrouwen hypotheekmarkt

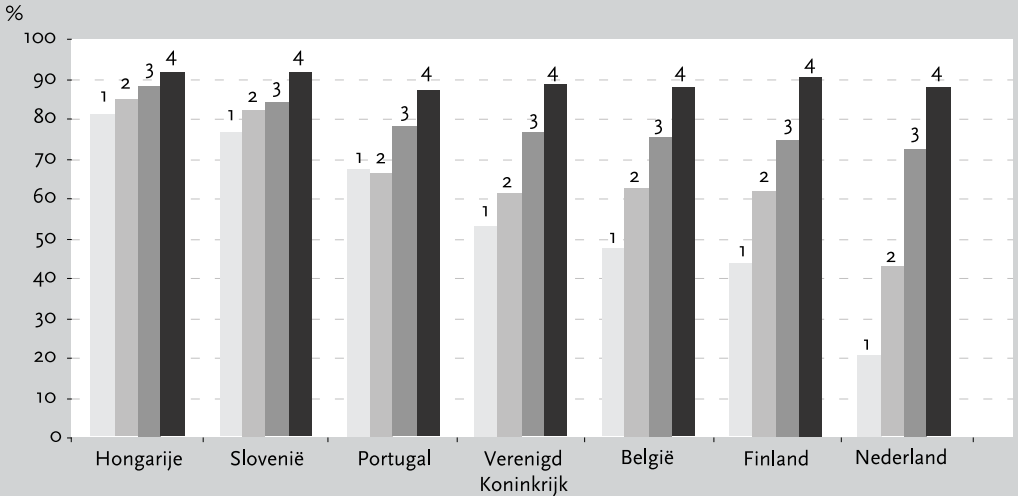
Het wantrouwen in hypotheekverstrekkers kan ook worden aangepakt. Hypotheekverstrekkers kunnen dit zelf doen door de belangen van de klant centraal te stellen. Anderzijds kan de overheid kiezen voor meer of minder regulering en toezicht. Kosten voor hypotheekproducten moeten transparant zijn en risico's voor huishoudens verantwoord en inzichtelijk.

De meest kwetsbare ouderen hebben de minste baat bij eigenwoningbezit

In alle landen uit het onderzoek is het eigenwoningbezit het sterkst vertegenwoordigd in de groep huishoudens met hogere inkomens (zie figuur 2). Deze verdeling is het meest ongelijk in Nederland. Omdat juist huishoudens met lagere inkomens er doorgaans minder in slagen om te sparen voor de oude dag, is de implicatie dat degenen die het extra vermogen het hardst nodig hebben, dit het minst vaak hebben. Het eigenwoningbezit vergroot hierdoor de al bestaande verschillen tussen inkomensgroepen.

Stimulering eigenwoningbezit onder lage inkomensgroepen is niet de oplossing

Stimulering van het eigenwoningbezit onder de lage inkomensgroepen leidt

Figuur 2 Percentage eigenwoningbezit per inkomenskwartiel in 7 Europese landen

niet vanzelfsprekend tot een oplossing voor deze ongelijkheid. Het eigenwoningbezit is niet in eerste instantie een pensioensvoorziening, maar dient vooral als een veilige haven, een stabiel onderkomen voor een huishouden. Het eigenwoningbezit kent meer risico dan huren, en als gevolg biedt het niet voor alle huishoudens een geschikt onderkomen. Zo kan het eigenwoningbezit problemen opleveren als mensen flexibel dienen te zijn op de arbeidsmarkt of als relaties nog niet stabiel zijn. Het remt mobiliteit, want het verkopen van een woning is doorgaans complexer en neemt meer tijd in beslag dan het opzeggen van de huur. Als huizenprijzen dalen en huishoudens grote hypotheekschulden aangaan zijn de complexiteit en de problemen doorgaans groter. Bij dalende huizenprijzen stagneert de vraag naar woningen en is het moeilijker een woning te verkopen. Als huishoudens een grote hypotheekschuld zijn aangegaan kunnen ze na verkoop bovendien met een restschuld blijven zitten. Verschillende onderzoeken hebben aangetoond dat huishoudens met lagere inkomens meer risico lopen als zij een koopwoning bezitten (Shlay, 2006; Turner & Luea, 2009). Ze wonen vaker in een woonomgeving waar prijzen relatief gezien minder stijgen. Ze hebben vaker moeite om te sparen, bijvoorbeeld voor het onderhoud van de woning, of om eventuele dalingen in het inkomen op te vangen. Vanuit economisch oogpunt is het bovendien onverstandig om een groot deel van het inkomen van een huishouden te investeren in één type investering zoals een koopwoning (Smith *et al.*, 2008). Ook werd uit dit onderzoek duidelijk dat huishoudens in het lagere segment van de woningmarkt minder mogelijkheden hebben om de woning te gelde te maken.

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Curriculum vitae

Janneke Toussaint was born on August 2 in 1980 in Wageningen, the Netherlands. She went to the Liemers College secondary school in Zevenaar from 1992 to 1998. After a short period in which she studied and worked at various places and searched for a study that would suit her interests, she started in September 2000 at the University of Groningen in Psychology. She specialised in Social Psychology and graduated in the research group Theory and History of Psychology under the supervision of Prof. dr. G.C.G. (Trudy) Dehue in 2004. Next, she started her work as a junior researcher at OTB Research Institute for the Built Environment (Delft University of Technology). She worked in two EU projects that investigated the role of owner-occupation in a changing welfare state context in eight member states of the European Union. These projects were conducted by researchers from different countries and with various scientific backgrounds. From 2006, Janneke also started her PhD thesis under the supervision of Prof. dr. ir. M.G. (Marja) Elsinga and Prof. dr. P.J. (Peter) Boelhouwer. She published a great number of papers, which have been presented at conferences and published as book chapters, in international scientific journals, and also in Dutch journals. Further, she was member and chair of the PhD Board of OTB from 2006 to 2009. From 2011, Janneke has started working for the Netherlands Authority for the Financial Markets.

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What is the current role of housing wealth in household retirement strategies across the European Union member states, and could this role be extended? This question is often raised by researchers and policymakers as governments search for ways to cut pensions expenditure. Owner-occupation could potentially be part of a solution as the retired are often rich in terms of housing wealth. The existing theory shows that owning one's own home can be regarded as a form of pension: once the mortgage has been repaid, housing expenses are substantially lower and housing wealth can also be cashed in either by selling or using equity release schemes. However, converting housing assets into cash is a much less common strategy than expected. This book contributes to existing knowledge by relating household strategies to broader national contexts. The countries included in the study are Belgium, Finland, Germany, Hungary, Portugal, Slovenia, Sweden and United Kingdom, while the Netherlands is the subject of particular attention. The study suggests that owner-occupation is not the clear-cut solution that governments might have hoped for.



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