The role of owner-occupation in retirement in eight European countries


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Abstract

In many European countries ageing of the population puts pressure on collective welfare provision for the elderly. It is assumed that households increasingly have to take care of own financial means or rely more on family members in retirement. For the owner-occupiers, their dwelling – more specifically their housing equity – is usually the biggest asset in their asset-portfolio. It has been suggested that households might increasingly use, or plan to use housing equity in old age. In this paper we set out plans, norms and beliefs with respect to the role of housing equity in retirement in eight European countries. This is based on 240 household interviews conducted in the spring and summer 2009, as part of the collaborative project Demographic Change and Housing Wealth (Demhow).
The role of owner-occupation in retirement in eight European countries

Demographic change has put collective welfare provision for the elderly under pressure. Collective pensions and old age care provision have become increasingly expensive and European governments search for solutions. The impact of the ageing population on public policies for the elderly in the various European countries will mostly depend on existing institutions, and existing welfare regimes (Starke et al 2008). However, still it has been suggested that many governments have to shift financial responsibilities to households, as “…most public pension schemes were not designed to deliver current benefit levels when confronted with today’s major demographic and economic changes. Therefore, keeping existing systems afloat will require either cutting public spending on health and education, or cutting pensions drastically for the next generations of elderly” (Holzmann & Hinz 2006).

Many households appear to believe that governments will no longer be able to pay for pensions and care for older people (see Figure 1). The question is whether in response households made plans, made financial strategies, to sustain their living standard in old age. Especially, the youngest households face uncertainty about financial well-being in the last phase of their life course. Changes in welfare provision occur slowly and the youngest generations have not yet contributed substantially to the current public system. The middle age groups have paid substantial contributions already and cannot suddenly be told to take care of themselves. Finally, the current elderly have contributed to the public welfare system their whole lives and will make use of it during their retirement. It is expected that the working generations will need own financial resources – more than the current retirees – to maintain their living standard in retirement. Part of them has accumulated considerable wealth during their life course.

An increasing share of European households has invested in owner-occupation and hence has built up housing assets. The mortgage market has become more easily accessible for households, and has contributed substantially to the growing owner-occupation rate. More households took up a mortgage loan, and gradually repaid this loan. Further, in many countries house prices went up. Consequently, housing wealth has for many households become their most important source of wealth. The question is whether households plan to use their housing wealth, especially since prospects about pensions and old age care have become more gloomy.
Theory
Life-cycle theories are rather successful in explaining household saving and dissaving 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. This 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, as their current income is higher than average, while finally, the elderly use 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).

Similarly, it has been suggested that housing wealth could be consumed at old age according the life cycle theories. In the past, the obvious ways to cash housing wealth was through downsizing, or through moving into the rental sector. Hence, housing wealth was illiquid and consequently people would not use it as much as they could. More recently, mortgage markets have actively developed and marketed ‘mortgage equity withdrawal products’. With these products, households can borrow against their owner-occupied dwellings as collateral. It has been suggested, that as a result households would more easily consume their housing wealth (Doling et al 2009; London Economics 2005; Rouwendal 2009). Hence, the theory assumes that households are forward looking agents, have a ‘foresight motive’. Households ‘foresee’ that their future pensions will be lower if compared to the pensions for current generations, and their expenses for care in old age will probably be higher; therefore they make housing wealth part of their financial strategy for old age.

To start, the emphasis in the Life-cycle theories has been on the foresight motive. However, various researchers have modified the traditional theories by adding the precautionary motive (Browning & Lusardi 1995; Wärneryd 1999). In various studies on the consumption of housing
wealth, it was found that in fact this motive plays a very important role (Levin 1998; Parkinson & Searle 2009; Toussaint & Elsinga 2009). The precautionary motive entails that people keep their savings and (housing) assets as long as possible, because life is unpredictable and one always wishes to have some financial reserves in case the going unexpectedly gets tough. Only if there is no other way out, households would consume them. The three most important risks in people’s lives would be uncertainty about earnings, medical expenses and the length of life (Wärneryd 1999). Hence, based on the precautionary motive one expects, that the higher the risks, the more households will want to keep their housing wealth as a precautionary fund. Hence, households perceive greater risks for old age, with respect to pensions and old age care, and would therefore be more likely to regard housing wealth as a nest-egg, a precautionary fund.

Additionally, the ‘bequest motive’ has an impact on households saving behaviour. Households with children do not spend everything they have, as they wish to pass on wealth to their children, or to other heirs. This seems to apply especially to housing wealth, which is often an important – if not the most important – part of an inheritance. Leaving a bequest has appeared to be judged differently among countries. For example research indicated that an inheritance is more important in the Southern part of Europe, and least in the north – central Europe has an in between standpoint (Kohli 2004). The literature further distinguishes four types of bequest motives. First the ‘exchange-bequest motive’, which entails that children take care of their parents and in return will receive a bequest. Second, the ‘altruistic-bequest motive’, the parents wish to leave a bequest to their children, regardless of whether the children take care of them or not. Third, ‘self-interest bequest motive’, means that people have no advance plans to leave a bequest, because they want to enjoy their own lives. Finally, fourth, people can find it undesirable to leave a bequest, which is called the ‘rejection bequest motive’ (Wärneryd 1999). There is no research (yet) available that shows the relative importance of these four bequest motives in various European countries (Kohli 1999). However, the first motive - the exchange bequest motive – is especially interesting in relation to this study. If care becomes more expensive, or difficult to access, the exchange-bequest motive could play a role. In case the self-interest and rejection bequest motives are prevalent, one expects households to be more interested in consumption of housing wealth.

Interestingly, both the foresight motive and the precautionary motive are assumed to become more important if future prospects about pensions and old age care become gloomier. However, the outcomes of the motives are different. Hence, it is probably either the one or the other – housing wealth is either in the planning to be consumed or regarded as a nest-egg, a last resort.

In this comparative study, based on about 240 interviews in eight European countries, we are able to investigate in-depth the ways in which housing wealth plays a role in households financial planning for old age, to what extent the foresight, precautionary and bequest motives are important in the various countries; and we attempt to relate the differences to the relevant aspects of national institutional contexts and individual circumstances.

The Demhow project and an introduction to the eight countries
This paper is part of the collaborative project Demographic Change and Housing Wealth (Demhow). Its overall aim is to investigate the ways in which, across member states, demographic change and housing wealth are linked (Doling 2007). This paper presents part of the preliminary outcomes of the work package that has the objective to obtain an understanding of different strategies with respect to the accumulation and use of wealth and inheritance. The
research was carried out in eight European countries. Additionally outcomes from various recent Eurobaromoters and the SILC database were used to complement the interview findings.

To be able to unravel the roots of people’s behaviour in the various countries, we choose for a qualitative research method. In every country, research partners wrote a report on the institutional contexts of the countries, with respect to care, pensions, housing markets and tax regimes. Furthermore, in summer 2009 in each country about 30 households, owner-occupiers from 3 different age-groups (25 to 35; 45 to 55; and 65 years and older), and with or without children were interviewed. With all research partners we agreed to select interviewees in an area that does not deviate strongly from other areas in the country with respect to the relevant factors in the study such as housing market, economic prosperity, and care provision. Together we developed a semi-structured topic-list, and an analysis scheme.

The expectation is that the growing pressure on pensions and old age care expenses cause more uncertainty about their future financial well-being and a greater perceived need to arrange own financial resources. Consequently, owner-occupation, particularly in its meaning as ‘housing wealth’ would play an important role in households planning for old age. We expect that 1) pressure is higher for the youngest age-group than for the oldest, and hence that housing wealth is more important for the youngest than for the oldest, with the middle group having a position in between. Further, we 2) expect that in countries where mortgage markets are further developed, and mortgage equity release products are available (see table 1), people will more tend to consume their housing wealth. 3) Households with children would less consider using their housing wealth, than households without children. 4) We explore the relevance of different saving motives and the impact of the various country contexts, specifically with respect to pension systems, the organisation of care for the elderly, and mortgage markets.

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<tr>
<th>Mortgage equity release products:</th>
<th>Countries</th>
<th>Expected consumption of housing wealth</th>
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<td>Widely available</td>
<td>Finland</td>
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<td>Not available</td>
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The importance of housing wealth in old age and the links with the institutional context
To start, it needs to be mentioned that for all interviewees in all countries, owner-occupation mostly represents a ‘home’. In general, this meaning is more prevalent in interviewees thinking and speaking than the meaning of owner-occupation as an investment good.

“W: 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 150 m2 or so. So for that we would have to pay as much rent as we pay for the credit now.

M: So for us the function of the house is habitation... the impossibility to loose that living space because a landlord determines the tenancy. Thereby we actually didn’t think of 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 name, I just want to live here in peace until death and so...”

(Slovenian woman, 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, 65-75 years old)

Additionally, when asked whether owner-occupation is providing them with financial security in old age, interviewees sometimes reject this question. Maintaining the house sometimes is so expensive, that the house can actually be a burden. Nevertheless, everywhere households were also aware that owner-occupation represents ‘wealth’, and people generally were able to elaborate on the financial ‘benefits’ of owner-occupation.

Low expenses
In all countries, but the Netherlands, owner-occupiers are normally outright-owners in old age. This means that the mortgage is repaid and households have relatively low housing expenses if compared to tenants. This is mostly pronounced as an important financial advantage in Germany, Belgium, Portugal, and Finland. In Finland interviewees expressed a common belief that one can retire once all the debts are paid off. In most countries, the choice to buy a dwelling in the early stages of the life course is not associated with retirement planning, and the future advantage of having low housing expenses at old age. As an exception, in Germany, the young interviewees did regard their purchase as a part of their financial plans for old age. In a country with only 43 percent of households being owner-occupier, and renting being an acceptable alternative housing tenure, low housing expenses at old are an important argument for buying.

“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 a rent.”

(Portuguese man, 65-75 years old)

In Hungary and Slovenia low housing expenses are less pronounced as an important financial advantage for old age. Here, interviewees are already outright owners in earlier stages of their life courses. The mortgage market is less developed; savings and intergenerational transfers play an important role in financing the purchase of a dwelling. Moreover, there are not that many tenants, and hence interviewees do 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.

Then, finally the Netherlands is a special case, as less and less owner-occupiers fully repay their mortgages. 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 is due to the fiscal arrangements in the Netherlands for mortgagees, which makes mortgage loans cheap, and it is also feasible because current retirees in the Netherlands have relatively high incomes and can therefore easily afford the remaining mortgage debt. It appeared however, that many young people do not realise that they
will still have mortgage debt left when the mortgage term finishes. It is likely that when these young Dutch reach their retirement age, they will face higher housing expenses than expected. It will depend on the pension incomes whether these housing expenses will be affordable.

**Figure 2 Households of 65 years old older (SILC Kees Dol)**

![Bar chart showing distribution of housing tenure for 65+ age group across countries]

The deviance of the Netherlands with respect to the other countries within the study can also be seen in Figure 2. Most elderly live in the rental sector. Of those who are owner-occupiers, about half has a mortgage and hence monthly mortgage expenses. Hungary and Slovenia stand out as countries where large majority is owner-occupier, and there are no mortgages left at old age.

**Consumption of housing wealth for undefined occurrences**

Then, next to giving low housing expenses, the owner-occupied dwelling represents a valuable nest-egg in old age. If there would be a financial urgency, and people would not have other means to solve the situation, they could cash their housing wealth. Most often interviewees have no precise occurrences that could be the cause of the financial problems. If interviewees imagine they would need to release their housing wealth, they think about selling as the most appropriate way to do so.

“W: The certainty of having your own dwelling and hopefully no longer having a mortgage.
M: 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 afford extra luxury.”

(Belgium 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 can sell the dwelling and purchase something cheaper and to have a whole lot of cash available.”

(Dutch man, 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)

Consumption of housing wealth for care costs

In Slovenia, the UK, and Belgium interviewees did mention explicitly extremely high costs for old age care; and interviewees without children in Hungary and Portugal brought up these high care costs as well.

In Slovenia, professional care for the elderly is described as very expensive. Commonly, children take care of parents as long as they can. There are differences in opinions between interviewees about up to which point the children take care. The traditional notion is that children have the obligation to directly provide care and help parents. The more modern view is that children are responsible to arrange, organise and pay at least part of the care costs. The frail elderly decide together with their children when to start using professional care, when to start spending considerable part of their financial reserves. The financial reserves could be important for financial well-being of the children; hence parent and children need to balance what weights heavier: the burden of giving care or the necessity of the financial means for the children. To afford professional care, Slovenian interviewees expected to need their pension incomes, children’s contributions, and additionally proceeds from selling their property. However, the following quotes illustrate that consumption of housing wealth is still not something that is easily done.

“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)

“Well, when I am old and in a home for the elderly, this house would be sold? No way! No way, because we built it ourselves. I am in deep debt because of it... No way!”

(Slovenian woman, 25-35 years old, with children)

Figure 3 shows that Slovenian people regard the elderly homes relatively often as the best option for an elderly parent who can no longer manage to live without regular help. This is different than in the other countries. For instance, in Hungary respondents find care provided by the children the best option; in the Netherlands and Finland it is professional care at home.
Figure 3 Respondents were asked for the best care option for an elderly parent who does not manage independently due to health problems.

The dimension on the x axis represents ‘Professional care’ (on the left) vs ‘Care provided by the children’ (on the right).

The dimension on the y-axis represents care ‘Out-of-the-home’ (at the bottom) vs care ‘In-the-home’ (at the top) (Eurobarometer 2007).

In the UK, to calculate individual contributions to the costs for an elderly home income, savings and capital – among which housing wealth – are included in the means test (Demhow policy report UK 2009). Consequently, interviewees foresee they will have to consume their housing wealth if they would need to move to an elderly home. In figure 3 it can be seen that the British do not often regard an elderly home as a good option. Possibly this is related to the fact that households have to consume their housing wealth. The resistance against these policies is illustrated through the trend amongst British households to engage in ‘asset dumping’ so that assets are not acquired by the state (policy report). Some British interviewees argued 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)

Also, in Belgium the step into a service flat or elderly home was regarded as costly. Some interviewees mentioned that the proceeds of the sales of their property could partly be used to pay for care.

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

(Belgium 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 (as can be seen in figure 3); and professional care is perceived as rather expensive. In Hungary, the care institutions have a bad reputation as conditions are dire. The monthly fees are being calculated on savings income, and assets, including housing assets. Besides the regular monthly payments and an entrance fee, the elderly need to pay extra to receive so-called ‘higher-level’ care. Additionally, in many institutions there is the practice of ‘parasolvency’; this means that patients make under-the-table payments to care providers in order to get 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 rather choose to use their housing wealth to pay a caregiver. Often, both in Hungary and in Portugal, households ask someone close – often from the extended family – to take care.

“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)
In figure 5 it can be seen that in Slovenia, people are more used and more in favour of the idea that the proceeds of a property are being used to pay for care. It is also the country where long term care services and home care services are regarded as least affordable. In all other countries a minority thinks that housing wealth should be used. In Finland least agree that housing wealth should be used. But also in the UK, very little agree 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 households’ contributions to the costs for residential care.

Consumption of housing wealth in case of a too low pension income
Besides for care, also in case of a too low pension income housing wealth is seen as a precautionary fund. Especially, in Hungary, housing wealth appeared important for a large majority; only not for the richest interviewees. Many interviewees can hardly get by in their working lives, and consequently cannot save for retirement. In Hungary, retirement does not logically imply that people stop working. On the contrary, the Hungarians will continue working, and the steady but low state pension will enable them to save, to give more financial support to the children, or to consume somewhat more for some time. Then, if households would no longer be able to work due to serious health problems, and they would not be able to manage financially, they would in first instance be supported by family members. However, if the family is not able to give sufficient support, the elderly will calculate how much money they could cash if they would downsize. This is a realistic option.

The Hungarian researchers explained that especially the self-employed are a special group with regard to their pension prospects. They normally evade the taxes, to have higher incomes. However, this implies that they are not fully eligible for the state pensions. Therefore, they need to make private pension savings. Many do not succeed – they invest in their businesses instead – and therefore expect they will have to continue working after retirement. However, if health conditions would not allow them to work, they might have to use their housing wealth.
In the UK and Finland some interviewees expressed a strong distrust towards private pension funds, instead they preferred to invest in bricks and mortar. In the UK there have been many cases where people lost all their pension savings. These occurrences got a lot of media attention, and people were wary against the private pension funds. Some British interviewees had lost their pension savings, because their companies went bankrupt. In response, they rather invest in their owner-occupied dwelling and wish to climb the housing ladder. During retirement they once again ‘planned’ to step down the housing ladder.

In Finland, it is the aggressive marketing of the private pension funds that seemed to get on young people nerves. They regarded investment in housing as more attractive. The difference with the British is that the Finnish seem to speak more about second properties, instead of their owner-occupied dwelling and a housing ladder. They stated, that instead of being dependent on a pension fund, they would be in control of the investment themselves, and additionally, if they would 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)

Not only in Finland, the youngest households were speaking about investment in 2\textsuperscript{nd} properties to sublet. This was also found in the Netherlands, Germany and Belgium. These 2\textsuperscript{nd} properties were typically seen as part of their financial planning, more so than their owner-occupied dwelling. In first place they expected to receive rental income from it. Secondly, if there would be a financial urgency they could sell and cash this housing wealth.

In the Netherlands, some interviewees had ‘plans’ to consume housing equity through selling their owner-occupied dwelling. One household was living already on a relatively low income. Once he would retire, he also planned to sell the house and move into the rental sector to have some more financial means. In the Netherlands, moving to rental housing is an appropriate option. Many current elderly in the Netherlands live in the rental sector. Yet, interviewees spoke about the growing problem of the waiting lists for social rental housing. One Dutch interviewee, extraordinarily thorough planner, had already subscribed to the housing corporation in his favourite city, to make sure that if the going would get tough in old age, he could move there and cash his housing wealth. In Hungary, Slovenia, UK, Finland and Belgium interviewees stated rather strongly that the selling and moving into the rental sector would not be an option.

Interestingly, in Germany, where the rental sector also provides appropriate housing, moving to the rental sector seemed less an option than in the Netherlands. First, an explanatory factor could be that the Germans are less mobile on the housing market than the Dutch. In Germany, people buy once in a life time. Hence, if they buy, they try to buy the perfect house. Additionally, the practice of self-building is traditionally prevalent in Germany, which seems to make the ties to a dwelling stronger. For the Dutch it seemed rather normal that people move to bigger houses when they are young, and move to smaller when they are old. A second explanation is that the inheritance seems important for the German owner-occupiers. In the past, they received substantial (housing) wealth from their parents and they wish to similarly leave a bequest to their
children. Also, if children take care of parents they usually receive the inheritance in return. This is much less pronounced in the Netherlands, where interviewees actually claimed that children have such wealthy lives, that inheritance has become unimportant. To conclude, various other factors complicate the straightforward conclusion that a rental sector, which provides acceptable housing, makes it more likely that owner-occupiers will consume their housing wealth in old age.

Next, in the Netherlands, the self-employed who – in contrast to employees – do not automatically participate in mandatory pension saving, often included their housing in the planning. The retired interviewees who had been self-employed during their working lives had often downsized. It must be said that they had still could afford relatively luxurious apartments and their living standard was above average. The self-employed in the age of 45 to 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 cream on the jelly. 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 sleeping rooms… With the children it is perfect, and with family staying over. But at some point it will be too big.
Interviewer: What will you do then?
Man: No idea, it depends, maybe we will buy a camper. I have no idea really.”
(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, to cash housing wealth, it is also considered because the dwelling is big and needs a lot of cleaning and maintenance. Hence the couple plans to move to acquire more appropriate housing. This argument is also used in Finland, where quite many interviewees can imagine downsizing in old age.

Various researchers found that interviewees in the youngest and middle age-group were more willing to consider moving than older. In some countries it would only be the group of 45 to 55 years old that would more consider moving, than the oldest group. This difference between the working generations and the retired can also be found in the figure x below.
Figure 5 Plans and considerations of the ‘non-retired’ and the (carried out) plans of the ‘retired’ (Eurobarometer 2008)

The figure on the left shows considerations to move or to borrow against the home of the non-retired, the working generations; whereas the figure on the right shows the plans and carried out plans of the retired. In the UK, Finland and Germany the plans of the working generations seem to deviate most strongly from the retired generation.

The interviews suggested that at least part of this difference can be explained by age, hence by the phase in the life course. It was stated that older people are more attached to their ‘homes’, as they have build up a life of memories that relate to the home. It was time and again mentioned that moving was highly stressful especially for older people. Also older people had experienced the war and therefore perceived a greater need to hold on to their housing wealth as a precautionary fund, than younger people. The question is to what extent there is next to the age-effect, also a cohort effect.

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1 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.
In figure 7 it is shown to what extent non-retired respondents worried about the sufficiency of their future pension income, and whether they planned to cash their housing equity. In Hungary, Portugal and Slovenia people appear most worried about their future pension incomes. At the same time, here they least appear to plan or consider moving to a different home, and also least consider borrowing against their homes or to sell it while keeping the right to live in it. In Finland and the Netherlands, where least households are worried about the pension income, relatively many households seem to consider moving. The United Kingdom stands out with a high share of households that indicates to consider moving house once they have retired. Here, also a large share of households worries whether income in old age will be sufficient. Possibly the rather common idea of climbing up and down the housing ladder, might explain the relatively high share of British households that plans to move. Overall, it needs to be taken into account that the question about moving house in the Eurobarometer has been asked to both tenants and owner-occupiers. Hence they give limited indications about consumption of housing wealth. It is likely that in Germany, it is mostly the tenants that consider moving. Also in the Netherlands, research indicated that it is more often tenants who move in retirement.

Limitations of cashing
In Hungary, Finland and the UK, it was mentioned that consumption of housing wealth was only an option for people with relatively expensive properties. If the latter would move to cash part of their housing wealth, they would still 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 a relatively cheap dwelling and if they would need to cash, it would mean a serious drop in the quality of their lives. They would have to move to an unattractive location, where house prices would be substantially lower. Some stated that this would be the moment they have to consider mortgage equity withdrawal. In both countries households know this option. The Hungarians mentioned the aggressive marketing of the reverse mortgage products. They also
mentioned that this product is non-ethical, as their children expected to receive an inheritance. Nevertheless, if there would be no other way out, this is an option that is taken into consideration.

In other countries mortgage equity withdrawal most often rejected as well and only seen as a last resort option. Suddenly in all countries the importance of leaving the house as a bequest for the children is strongly coming forward. The idea that they would ‘give’ the dwelling to the bank instead of to the children is unpleasant. Additionally, getting indebted once again would make them dependent on the banks. The Belgians explained that it would once again feel like renting. Interviewees in most countries mentioned distrust towards the banks. The bank would earn a lot from this kind of product and the gain for the owner-occupier would be limited. Interestingly, this also accounts for the Netherlands, where many interviewees still had an interest-only mortgage, and in fact also still leave part of dwelling in the hand of the bank. Therefore, an important argument appeared that they got rid of the mortgage in so many years, they ‘worked hard for it, and in case of mortgage equity withdrawal they would ‘loose’ it. The children come up time and again, when speaking about the reverse mortgages. Therefore, unsurprisingly, in many countries it was mentioned that people without children could more easily consider this as an option.

“I would not do that [using mortgage equity withdrawal]. We bought this house after our child was born. I can die tomorrow but my son will 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 when one dies, children have to pay the debts still.”

(Finnish interviewee, 65-75 years old)

“Ni, I wouldn’t consider reverse mortgages. I have bought this house 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 house. Even besides that, I wouldn’t do that, because your house is no longer your own. It becomes property of the bank. It would feel like renting.”

(Belgian woman, 25 to 35 years old)

The German researchers explained that in Germany it would be rather unlikely that interviewees would be confronted with a financially urgent situation and would have to consume their housing wealth. Owner-occupiers in Germany are the richest households in society; they have low housing expenses, if compared to tenants. Many of them even possess second dwellings, which they sublet and which they could sell if they would not be able to manage financially. Similarly in the Netherlands, owner-occupiers are the richer people. In Figure 8 below it can be seen that in Hungary, Slovenia and Portugal also many people in the lower income quartiles are living in the owner-occupied sector.
Subletting in case of emergencies

In various countries interviewees have stated that in case of emergencies they would rather sublet than sell their dwelling. In Belgium, it was especially the youngest interviewees who argued they would rather sublet than sell their properties. They found it important to pass on substantial wealth to their children in the future. In Slovenia and Hungary this is also seen as a viable option in case of emergencies, because the inheritance of the property is important for future financial well-being of their children. If the house would be large enough, they could sublet part of their dwelling. In case it is small, or the proceeds would be sufficient they would (temporarily) move in with their children and sublet the complete dwelling.

In Germany households could imagine that in case of financial emergency, they would move into a relatively cheap rental dwelling and sublet the property. This would make it possible to keep the property within ownership of the family. The German owner-occupiers had often received an inheritance or financial means from their parents, which enabled them to enter owner-occupation, or to even possess other properties. Many stated they would like to do the same for their children.

Discussion

The Life cycle theories focus on households saving and dis-saving. Hence, if applied to housing wealth, they predict that owner-occupiers build up housing wealth during their working lives and then cash and consume in retirement. Typically, this theory overlooks that owner-occupiers already have a financial advantage at old age if compared to tenants and compared to earlier phases in their life course, namely that they do not have to pay a monthly rent/mortgage expenses. This financial advantage is especially linked to old age in countries where households finance the purchase of their dwelling with a mortgage. These often are repaid ‘just in time’ before retirement. This appeared not the case in the Netherlands, the country with the highest pension replacement rates. Furthermore, the advantage of rent-free housing is more mentioned in countries where still many households are renting. Finally, we found that if owner-occupiers need
more cash, but do not want to consume their housing wealth as it is important for their children, they have the possibility to sublet.

The bequest motive appeared to play an important role. In countries where children had uncertain financial prospects or where it was difficult for children to obtain adequate housing, there was a greater need to keep housing wealth in the family and to not consume it in retirement. Good examples are Hungary and Portugal. In these countries the differences between interviewees with and interviewees without children were more pronounced, than in countries where children would be able to manage without the help of the parents. In the countries where children were more dependent on intergenerational transfers, children also took more care of their parents when they would fall ill. In return for care, they could receive the inheritance. Hence the exchange-bequest motive is important in these countries. Even if interviewees did not have children, they could ask someone else who would receive the bequest in return. Hence, selling or mortgage equity withdrawal is not necessary in these cases to release housing equity. Interestingly, in all countries when speaking about reverse mortgages the bequest motive strongly comes forward. In figure 8 below it can be seen that in fact in all countries parents found financial help of parents and grandparents important for young households who establish their own households and families.

![Figure 8 Percentage 'Yes, the financial help of parents and grandparents is important for young adults who establish their own households and families' (Eurobarometer 2009a)](image-url)
Households were not always clear about the saving motives with respect to housing wealth. Most prevalent was the precautionary motive. In countries where worries about pension income were highest, people least wanted to move. Additionally, if one expected that at some point the housing wealth could be necessary to finance care in old age, people would hold on to their wealth. If housing wealth could be necessary for care in old age, the foresight and precautionary motive were kind of mixed. In the UK housing wealth seemed to be most obvious in the strategy, the foresight motive could be recognised. Young households expected to climb up and down the housing ladder. Additionally, the British are obliged by government’s policies to consume their housing wealth in case they would need care in an elderly home. In Finland and the Netherlands also some households foresaw they would sell the dwelling. However, it was not only triggered by the need to cash. It was also common to move to more appropriate housing in old age. In Finland this was found in the owner-occupied sector. In the Netherlands this could also be found in the rental sector.

It has been suggested that in countries with developed financial markets, households would be more tempted to plan consumption of housing wealth in old age. However, it was found that in general people prefer selling and downsizing, because they would stay ‘in control’. We did find that in case of emergencies, if the housing wealth was too limited to cash and to find new appropriate housing, interviewees would consider mortgage equity withdrawal. This was mentioned in Hungary and the UK. By using the services of financial institutions people have the feeling they loose control, and become once again dependent. Some Belgian interviewees compared this to renting. Another relevant factor that explains aversion towards mortgage equity release is the importance of inheritance. In Hungary mortgage equity withdrawal was described as unethical, as children expect to receive an inheritance.

Housing ladders or mobility on the housing market seemed to matter. In some countries, such as the UK, Finland and the Netherlands, it seemed normal for owner-occupiers to move various times during the life course, whereas in other countries people buy once in a lifetime – and sometimes self-building is part of the culture. In the latter countries it will be less common to cash through selling than in countries where it is normal to. Important is that the housing ladder mostly seems to function for the more affluent households. If one lives in a moderate house, downsizing is less of an option. Having appropriate housing is an important contribution to the quality of life. The rental sector could potentially provide an acceptable alternative in old age, which makes it easier for elderly with modest dwellings to cash.

In all countries we found that the youngest group was optimistic about the investment value of owner-occupation. The question was whether their decision to become owner-occupier was related to their greater uncertainty about future collective welfare provision. This was most explicitly found in Germany, and the UK. In Germany, the youngest group aims at having relatively low housing expenses in retirement. They have a real choice between renting and owner-occupation, more than in other countries. The German rental sector provides acceptable housing for all income groups, which is dissimilar to all other countries. The uncertainties about pension incomes play a role in the choice of entering the owner-occupied sector. In the UK, the youngest group was explicit about the possibilities to climb up and down the property ladder. Hence in the UK, the Life cycle theories could possibly apply most. However, the issue came up that with age households increasingly become attached to their dwelling, and find it more
difficult to consume their housing wealth. The oldest group appeared less willing to consume their housing wealth.

For sure, housing wealth will appear to be an important buffer that future elderly can use in case of emergencies. Hence, in case pension incomes will be much lower than people expected, or care expenses in old age will be much higher, owner-occupiers will have a valuable financial reserve stored in the stones of their homes. The strategy of people without children will most likely be to use their housing wealth as a last resort. The strategy of people with children will probably depend on the financial situations and prospects of their children; and will depend on the expected elderly care provision. First, if the prospects are gloomy, they will probably choose for a family strategy. Also if the children will take care of them in old age, housing wealth needs to be untouched as long as possible. Second, if children can manage financially, their prospects are good and they won’t have a role in providing care in old age: the owner-occupiers will consume their housing wealth.
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