EPPARG
European Pensions
&
Property Asset Release Group

EPPARG RESPONSE TO THE GREEN PAPER ON AGEING

APRIL 2021

ABOUT EPPARG

The European Pensions and Property Asset Release Group (EPPARG) was set up in 2012 to foster dialogue between representatives of the industry, the EU institutions and national governments on the appropriate European regulatory framework for the development of innovative pensions and property asset solutions.

Countries with EPPARG representatives or associates make up over 75% of all the countries in Europe with a home equity release market. This makes EPPARG the principal organisation representing the interests of European home equity release providers at the European level.

Home equity release, or property asset release, is defined as the ability to safely draw down an income – either as a lump sum, an income stream or both - from the equity value of a person's home without having to leave the home or to make regular interest payments.

EPPARG is leading the way through the setting of standards for the European home equity release industry, where it has developed the EPPARG 10 standards, Code of Practice and Statement of Principles to guide the future development of safe home equity release solutions.

EPPARG is also one of the founding members of the Global Equity Release Roundtable (GERR), launched in 2020, together with the National Reverse Mortgage Lenders Association (NRMLA) of the US, in collaboration with the UK Equity Release Council. Country representatives cover an estimated 80% of the global equity release market.

CHALLENGES IDENTIFIED IN THE GREEN PAPER WITH FINANCING IMPLICATIONS

The Green Paper identifies a range of policy challenges when it comes to meeting the needs of an ageing population across the EU27.

EPPARG notes that the following points have financing implications for the EU and its Member States:

- Europe is the continent where the process of an ageing population is most advanced, with implications for economic growth, fiscal sustainability, health and long-term care, well-being and social cohesion.

- There is a need to strike the right balance between sustainable solutions for the welfare system and strengthening intergenerational solidarity and fairness between both young and old, and to critically assess how fit the current pension systems are to deal with a fast-ageing population.
- Currently, the total cost of age-related public expenditure exceeds 25% of GDP in the EU as a whole. In the 2018 Ageing Report, these costs were projected to increase by 1.1 percentage points (pp) by 2070, with an increase of 3 pp or more in 11 Member States. In addition, the fall-out of fighting COVID-19 and the economic consequences of lockdown measures have posed further challenges.
- There is a threat of old-age poverty, with people facing financial risks as they grow old (e.g. the need for healthcare and especially long-term care), including energy poverty.
- The challenge of maintaining adequate, fair and sustainable pensions in an ageing society, with more pensioners and fewer people of working age, may create a double burden for the younger generation and raise questions of intergenerational fairness.
- High quality, safe and cost-effective supplementary pensions, including the pan-European personal pension product (PEPP)28, that complement statutory pension schemes can provide additional retirement savings, and their fiscal cost and distributive effect should be considered.
- The number of people potentially in need of long-term care is expected to increase from 19.5 million in 2016 to 23.6 million in 2030 and 30.5 million in 2050 in the EU27.
- The safety of older people living alone could be improved through the use of adapted housing solutions and 'smart homes' with sensors and automated systems for electrical appliances, lighting and heating.

EPPARG notes that the consultation paper poses specific questions on some of these points including the following:

- Q10. How can the risks of poverty in old age be reduced?
- Q12. What role could supplementary pensions play in ensuring adequate retirement income?
- Q13. How can the EU support Member States efforts to reconcile adequate and affordable healthcare and long term care coverage with fiscal and financial sustainability?

EPPARG
European Pensions
&
Property Asset Release Group

EPPARG COMMENTS IN RESPONSE TO THE GREEN PAPER

Summary

We fully agree with the European Commission that there is a need to *"look at new approaches and ensure that our policies are fit for purpose in an era of major change".*

We also concur with the statement that *"the EU is well placed to identify key issues and trends and support action on ageing at national, regional and local level".*

We believe that the current situation – where the pressures on EU Member States to make provision for elderly populations are being exacerbated by the COVID-19 pandemic on both economic and health grounds – calls for urgent innovative and sustainable financing solutions which limit the intergenerational burden.

In view of the EU's ageing population, even if the retirement age continues to increase, the pension provision available to the elderly population is likely to be insufficient to secure a comfortable retirement. We are convinced that home equity release solutions have a critical role to play, whereby elderly EU homeowners would be able to unlock the value of the wealth that they have accumulated in their homes, which represent the largest asset for most people.

We consider that the EU is behind the curve globally when it comes to recognising the potential contribution of home equity release, noting that innovative approaches are being developed globally, with Australia already recognising home equity release as part of the third pillar, for example.

The main barrier to the growth of home equity release markets in the EU is the lack of availability of funding. We call on the EU to ensure sympathetic capital treatment of home equity release solutions so that the EU market is able to reach its full potential, including facilitating cross-border funding solutions. We also believe that it would be helpful if equity release mortgage portfolios could be regarded as collateral (repo) at the level of the ECB, in the same way that banks treat mortgages.

We are also convinced that home equity release can make a significant contribution to the achievement of the EU's wider objectives, such as the green agenda, since home equity release can also unlock funds to be used for environmental improvements to the homes of elderly homeowners across the continent.

By recognising home equity release as part of the solution to ensure fiscal and financial sustainability over the long term, the EU can play an educational and awareness raising role in relation to national authorities, consumers and investors, thereby contributing to growth of the European market.

EPPARG Limited, Acre House, 11-15 William Road, London NW1 3ER, UK
Email: info@epparg.org Website : www.epparg.org

POLICY CONTEXT

We recall that the European Commission has funded, or co-funded, two projects in the past which relate to equity release in Europe as follows:

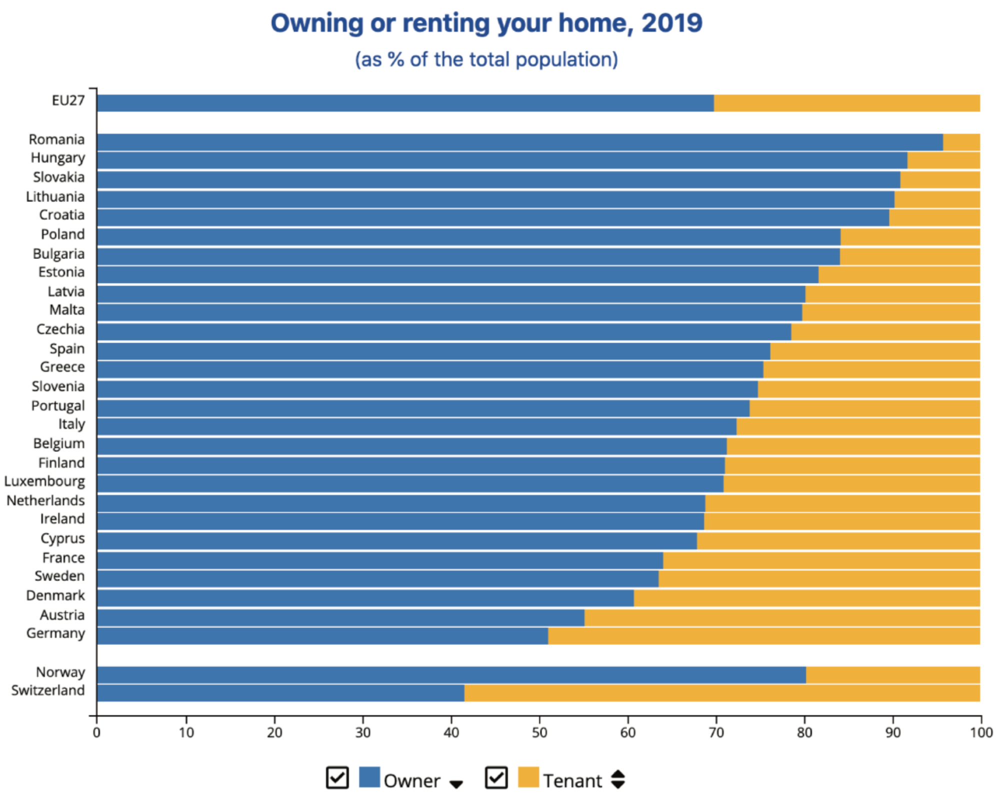
- *Study on Equity Release Schemes in the EU*, by Dr Udo Reifner et al., *iff*, published in 2009 (Project No. MARKT/2007/23/H)
- *Promoting the contribution of private savings to pension adequacy: Integrating residential property with private pensions in the EU*, led by iff in cooperation with Rostock University (UROS), Andrássy University (AUB), Waterford Institute of Technology (WIT), Technical University of Delft (TUD), The Libera Università Maria Ss. Assunta (LUMSA) and Queens University Belfast (QUB) (Grant Agreement No VS/2015/0218).

At EPPARG, we consider that home equity release solutions should be recognised under the EU's policy framework, encompassing both the social affairs and the capital markets union aspects which are of high relevance.

POTENTIAL CONTRIBUTION OF HOME EQUITY RELEASE SOLUTIONS

We believe that home equity release has a key role to play in financing solutions to support homeowners in later life across the EU.

We note that more than two thirds of the EU population (70%) own their own home, according to Eurostat data from 2019, as can be seen from the chart below.



Source: Housing in Europe, Statistics Visualised, 2020 Edition[1]

We believe that the total value of housing wealth in the EU represents a significant untapped sum which, if unlocked, could play a significant role in supporting the elderly population in later life, and also provide an economic stimulus to the economy. Concerning the euro area alone, the ECB had estimated that euro area household's housing wealth had increased from €13,211 billion in 1999 to €24,232 billion in 2006[2], with an average nominal growth rate of 9% p.a. Today we note that the value of the residential housing market represents approximately €4,100 billion in Spain and €6 billion in Italy (out of which 50-60% of the value is owned by the elderly), which suggests that the total quantum of housing wealth across the EU is vast. Overall, we consider that the potential for growth in home equity release markets both in the EU and globally is substantial, as can be seen in the key findings of the Global Equity Release Roundtable 2020 Survey Report on the following page.

---

1 https://ec.europa.eu/eurostat/cache/digpub/housing/images/pdf/Housing-DigitalPublication-2020_en.pdf?lang=en

2 https://www.bis.org/ifc/publ/ifcb31j.pdf

EPPARG
European Pensions
&
Property Asset Release Group

Findings of the Global Equity Release Roundtable 2020 Survey Report

On 27 January 2021, the European Pensions and Property Asset Release Group (EPPARG) and EY have published the Global Equity Release Roundtable 2020 survey report, which predicts the global equity release market could more than treble over the next 10 years.

The report is based on data collected from equity release market players in the following 13 countries: Australia, Canada, Germany, Italy, Ireland, the Netherlands, New Zealand, Norway, Poland, Spain, Sweden, the UK and the USA. These countries are considered to be amongst the largest equity release markets in the world.

Key findings from the report include:

- Between the countries analysed, over $15bn of equity is released per year for homeowners, but by 2031, the global equity release market is expected to exceed $50bn in annual releases.
- The most common sources of financing for equity release mortgages are banks and insurance companies, as well as securitisations.
- The most common type of equity release is the lifetime mortgage, which is available in the majority of countries covered by the survey, followed by home reversion schemes.
- Equity release products are typically available to customers from the age of 55 or 60 years old, with a mix of fixed and variable rates.
- A lack of customer awareness is cited as the main barrier to growth, followed by insufficient funding, notably in European markets.

ROLE OF EQUITY RELEASE IN REDUCING RISKS OF POVERTY IN OLD AGE

The consultation paper asks how the risks of poverty in old age can be reduced in Question 10.

We anticipate that there will unfortunately be an increasing risk of pensioner poverty in the EU over the coming years, as a consequence of demographic trends on the one hand and rising pressures on national welfare systems on the other, as the European Commission has identified. We urge the European Commission to take a holistic approach to the problem, looking beyond current solutions, by 'helping pensioners to help themselves' wherever possible.

We note that a large percentage of households across the EU have invested in their homes and consider these as their pensions. Home equity release provides a way to safely unlock these funds to help elderly homeowners drawdown their own money at the time they need it, either in a lump sum or through receiving regular monthly payments for the rest of their life.

Home equity release solutions may not be right for everyone, but they can provide an additional and viable choice for those elderly homeowners who find themselves 'asset rich but cash poor'. The experience of our members, as product providers, shows that for an elderly homeowner (or a couple) who is 'asset rich but cash poor' a home equity release solution can make the difference between being able to meet all of their monthly commitments (e.g. food, energy bills) and not being able to meet them (i.e. falling into poverty). We have noted that the difference between the two situations might only be a small sum on a monthly basis.

Furthermore, the experience of our members shows that home equity release has a high 'Net Promoter Score', which means that those who subscribe to such solutions are highly likely to recommend them to others, in the light of their own positive experience.

Based on the above, while we do not see safe home equity release as a panacea, we believe it should be an element for consideration in the pension planning of elderly consumers, since it can offer some help to the third pillar, as set out below.

POTENTIAL CONTRIBUTION OF EQUITY RELEASE TO PENSIONS ADEQUACY

The consultation paper asks what role supplementary pensions could play in ensuring adequate retirement income in Question 12.

Looking at the current context, we consider that second-pillar occupational pensions have some role to play in complementing the first-pillar state pensions provided by national governments in Europe but, as the European Commission has identified, national pensions systems will be under increasing pressure in the light of demographic trends, with the fall-out of fighting COVID-19 and the economic consequences of lockdown measures posing further challenges. In the light of new employment models, such as the 'gig economy' for example, and even pressures on corporates which have suffered economically from COVID-19, we do not believe that first and second pillar solutions will be sufficient to bridge the gap to ensure adequate pensions for all.

We therefore urge the European Commission to focus its attention on promoting third pillar solutions which have far greater potential to ensure adequate retirement income for a much larger number of EU citizens over the long term, and note that it has already developed the Pan-European Personal Pension Product (PEPP) as one innovative solution.

We would now urge the European Commission to take a much more forward-looking approach to third pillar solutions and to encourage EU Member States to include home equity in the third pillar, as is already the case in Australia, would significantly improve retirement outcomes.

The inclusion of home equity in retirement funding provides a number of benefits:

- Harnessing the value of the home for both retirement housing and funding has positive impacts in terms of lifestyles and wellbeing, and provides a sustainable and adequate retirement plan.
- Unlike selling the home or downsizing, accessing home equity still maintains a significant reserve of value to fund in-home care and residential aged care and

preserves significant savings for retirees to support their family and to bequeath to the next generation.

- With home equity retirement funding as part of the available retirement solutions, retirees can draw on all three pillars of retirement funding flexibly throughout retirement to meet their own retirement funding needs and it improves the chances that they will successfully fully fund their longevity. It supports age-appropriate housing for in-home ageing at all stages of retirement for couples and surviving partners.
- Economically the model has large scale advantages, bringing retirees' savings to bear on funding their own retirement without jeopardising their existing pensions entitlements under the first or second pillars. Accessing the third pillar also boosts retiree consumption and provides long-term stimulus to the domestic economy.

Australia: Inclusion of home equity in the Third Pillar

The three pillars of Australian retirement funding system are the age pension, superannuation and voluntary savings including home ownership.

The federal government has established clear principles according to which Australian retirees can voluntarily improve self-funded retirement outcomes by complementing government benefits and superannuation with access to the $1trillion home equity they have already saved.

The Government of Australia published the findings of its Retirement Income Review on 20 November 2020, which highlights the multiple roles of the family home in retirement, including as a source of retirement funding, stating:

- *"This report highlights the importance of home ownership in achieving security in retirement such as removing the need for income to pay for rental accommodation and providing an asset that can be drawn on to supplement retirement income."* (page 26)
- *"The home is the most important component of voluntary savings and is an important factor influencing retirement outcomes and how people feel about retirement. Homeowners have lower housing costs and an asset that can be drawn on in retirement." (page 18)*
- *"Using relatively small portions of home equity through the Pension Loans Scheme or similar equity release products can substantially improve retirement incomes for many people." (page 39)*

In terms of the opportunity to improve retirement outcomes, the Review also notes that:

- *"Home owners also have the opportunity to access the equity in their home to supplement retirement income and manage longevity risk, although few currently do so. If this potential were realised, housing would take on an even more important role in the retirement income system."* (page 102)

Recent academic research into the home equity funding market by the UNSW Centre for Excellence in Population Aging Research (CEPAR) indicates that over 80 percent of Australians are aware that their home is a significant asset to fund retirement, 43 percent of retirees are open to accessing their home equity to fund retirement and they would draw 13 percent of their home equity to do so.

POTENTIAL CONTRIBUTION OF EQUITY RELEASE TO FISCAL AND FINANCIAL SUSTAINABILITY

The consultation paper asks how the EU can support Member States efforts to reconcile adequate and affordable healthcare and long term care coverage with fiscal and financial sustainability in Question 13.

We believe that this is one of the most fundamental and pressing long term challenges facing EU Member States, which has been exacerbated by the COVID-19 pandemic, and which has put existing welfare systems under additional pressure.

Furthermore, the European Centre for Disease Control and Prevention published a rapid risk assessment in November 2020 which examined the increase in fatal cases of COVID-19 among long-term care facility residents in the EU/EEA and the UK, and which highlighted that:

> *"COVID-19 outbreaks in LTCFs, which are a relatively closed and high-occupancy setting, can have devastating effects given the increased vulnerability and other underlying health problems of residents, resulting in a high likelihood of unfavourable outcomes to infection. Increasing reports of COVID-19 outbreaks in LTCFs are being reported in all countries in the EU/EEA and the UK, both in national reports and in the media."*

it is too early to tell what the precise impact of the pandemic will be on long term demand for places in residential care home settings, but we anticipate that across EU Member States, based on the above, the demand for in-home care among elderly populations is likely to rise vis-à-vis demand for residential care homes, as the former may be perceived as a safer option to guard against the risk of infection.

We understand that the EU has limited competence in relation to the health and welfare systems of its Member States, which are largely reserved to national governments, yet at the same time we believe that the EU has a vital role to play in promoting innovative and forward-looking solutions such as home equity release. We note that home equity release can lead to a multiplier effect at macro-economic level and a positive impact on the GDP of EU Member States by passing the benefits of additional liquidity to the active population instead of being simply locked within the housing assets of the elderly generation, as we explain further below.

By recognising home equity release as part of the solution to ensure fiscal and fiscal sustainability, the EU can play an educational and awareness raising role in relation to national authorities, consumers and investors, thereby contributing to growth of the European market.

We consider that home equity release solutions have a dual role to play in contributing to fiscal and financial sustainability among EU Member States:

- Relieving the intergenerational burden on society;
- Supporting intergenerational solidarity within the family.

The contribution of home equity release in relieving the intergenerational burden on society

The European Commission has highlighted the challenge of maintaining adequate, fair and sustainable pensions in an ageing society, with more pensioners and fewer people of working age, and notes that this may create a double burden for the younger generation and raise questions of intergenerational fairness.

The potential contribution of home equity release in reducing the burden on the state - and by extension the intergenerational burden on society over the long term – can be characterised as follows:

- Allowing elderly homeowners to self-fund their retirement, long term care and health needs, thereby contributing to a dignified and quality retirement;
- Offering elderly homeowners the opportunity to stay independent at home for longer, which reduces the demand on the state to provide residential care facilities;
- Providing a financing solution to support the move to more appropriate elderly housing stock to free up mainstream housing stock for younger generations.
- Providing a private enterprise route to a better later life for those who do not have the opportunity or time to save for a pension.

By definition, home equity release is a solution which is only relevant for elderly people who own their own homes, however current estimates from EPPARG members suggest that there are high levels of homeownership among the elderly population in a number of countries, for example:

- Poland and Italy: Over 90% of the elderly population are homeowners.
- Spain: 89% of the elderly population are homeowners.
- Ireland: 83% of those aged over 60 are homeowners and this increases at higher ages.
- Germany: 54% of the elderly population are homeowners.

Home equity release solutions therefore help elderly homeowners to unlock the savings they have made in their homes, which means that over time, if home equity release solutions became more widespread in EU countries, national governments would have the option to focus a greater proportion of welfare support on those who are not homeowners.

In the light of this, we believe that the European Commission should encourage the Member States to create incentives to promote the take up of safe home equity release solutions to promote intergenerational fairness.

The contribution of home equity release in supporting intergenerational solidarity within the family

Home equity release also has a key role to play in terms of supporting intergenerational solidarity within the family as follows:

- Providing a source of income to supplement pensions in retirement whilst maintaining a portion of income for heirs
- Gifting to family members to help them acquire their own properties and to support them in times of economic crisis, including preventing children from defaulting on their financial commitments
- Preventing the cost of care expenses for the elderly from becoming a burden to be borne by younger family members.

It is notable that, in the context of an ageing population, passing the benefits of greater liquidity to children (who are still active in the economy while those aged over 60 are in the decumulation phase) through home equity release solutions has a positive impact in contributing to higher GDP with unlocked liquidity.

In addition, it should be noted that such benefits can be availed of over under both lifetime mortgages and home reversion schemes, as the main two models of home equity release. The ability to avail of lump sum and annuity payments can be helpful to heirs who wish to finance their homes, either through a down payment or regular ongoing payments.

Home equity release solutions can also help address problems of gender imbalance within the family. In Germany, for example, many women never worked and so the main pension is often that of the husband. This means that the old age income of the surviving wife decreases significantly when the husband dies. Home equity release can therefore help to ensure higher survivor benefits for wives.

Furthermore, in Germany, a child inherits 25% of the property upon the death of one spouse, so a home reversion can help the survivor to avoid a forced sale to pay out to the child.

EPPARG
European Pensions
&
Property Asset Release Group

CAPITAL TREATMENT AND FUNDING

While issues of capital treatment and funding are beyond the scope of this consultation paper, we would like to highlight that the main barrier to the growth of home equity release markets in the EU is the lack of availability of funding in a number of countries, including Italy and Spain, among others.

We call on the EU to ensure sympathetic capital treatment of home equity release solutions, in relation to the Matching Adjustment under solvency rules, among others, so that the EU market is able to reach its full potential, including facilitating cross-border funding solutions.

We also believe that it would be helpful if equity release mortgage portfolios could be regarded as collateral (repo) at the level of the ECB, in the same way that banks treat mortgages.

We are concerned that the potential to unlock housing wealth has been overlooked in the EU's work on capital markets union to date. We believe that positive recognition of home equity release solutions by the EU would encourage and reassure funders and help to grow EU equity release markets, some of which are in their nascent or start-up phases.

We also note that funders using returns on property assets over the long term will support the funding of ongoing private pension liabilities.

EPPARG would be pleased to provide further details to the European Commission in relation to capital treatment and funding as needed.

CONTRIBUTION OF EQUITY RELEASE TO EU'S SUSTAINABILITY AGENDA

We are aware that the European Commission has been seeking to embed the concept of sustainability into the financial services agenda, with recent initiatives including the Sustainable Finance Disclosure Regulation (SFDR) to promote the disclosure of ESG-related information in the investment industry, and the Taxonomy Regulation which seeks to guard against 'greenwashing'.

We consider that the growth of home equity release solutions in the EU can contribute to the achievement of the EU's sustainability agenda through:

- Developing 'green' financial products for consumers (e.g. green lifetime mortgages, which have already been introduced in the UK by our member Just Group, as set out below);
- Providing the funds for re-investment in the property which can support sustainability objectives – in Ireland, for example, up to 20% of the funds raised from home equity release are re-invested in the property.
- Providing a safe mechanism for elderly homeowners to unlock the funds from their home to upgrade their homes through the use of smart, environmentally friendly solutions. The European Commission notes in the Green Paper that *"The safety of older people living alone could be improved through the use of adapted housing*

solutions and 'smart homes' with sensors and automated systems for electrical appliances, lighting and heating" and we consider that both environmental benefits and cost savings would also be achieved by following such an approach.

Just Group introduces UK's first green lifetime mortgage

Just Group, the retirement specialist, announced on 13 July 2020 the introduction of a new innovative feature – a green lifetime mortgage – as part of its latest product update.

The green lifetime mortgage from Just Group ("Just") offers discounted interest rates to new lifetime mortgage customers whose property has an A or B-rated Energy Performance Certificate ("EPC"). The new offering has been made available to customers applying on the Just For You J2.5 LTV series which was launched on 20 July 2020.

It followed the UK Chancellor's announcement on 8 July 2020 of the £2billion Green Homes Grant scheme. Under this scheme, homeowners in England can receive up to £5,000 per household to make energy-saving improvements to their properties, with those on the lowest incomes getting up to £10,000.

Customers qualifying for the green lifetime mortgage feature will receive a 10bps discount on their mortgage rate and a £50 contribution to the cost of the EPC (received via cashback at completion of the advance).

The J2.5 LTV tier in the Just For You suite of lifetime mortgages offers customers a greater LTV than the J2 LTV series at a lower interest rate than the J3 LTV series and has a loan to value ranging from 23% to 51.9% dependent upon customer age. It is designed to offer a competitive interest rate for the initial lump sum, whilst offering the customers the flexibility of an unused cash facility to be released when funds are required.

Since 2007, every house built, sold or rented in the UK must have an EPC, which rates the property with a score from 100, the highest, to 0, the lowest – scores of 81 or above qualify for an A or B rating. An EPC rating is valid for 10 years from the time of assessment and is issued by an accredited domestic energy assessor after an inspection of the property.

CONCLUSION

We hope that EPPARG's contribution as set out in this position paper will be of assistance to the European Commission as it seeks to address the crucially important topic of ageing in the EU. We remain at the European Commission's disposal for any additional information or clarification regarding the points set out above.