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Do New Zealand home equity release schemes provide value for money?

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Disclaimer

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Abstract

Home equity release refers to financial products that allow people to access the equity that is tied up in their own homes. Home equity is a large part of household wealth in New Zealand, making it an important asset that could potentially be used to fund retirement. However, the take-up of equity release products such as reverse mortgages is very low. This research examines whether home equity release schemes currently available in the New Zealand market provide value for money and how they might provide a suitable form of retirement income for some people. The available data confirm the existence of many households with low retirement income and high housing wealth, highlighting those who stand to potentially gain from home equity release. Assessments of the features and costs of current home release schemes, alongside worked examples using realistic values, highlight the scenarios when home equity release may (or may not) be beneficial. Depending on current circumstances and future financial needs, home equity release may be a suitable form of retirement income for some retirees but not for others.

JEL codes

J14 Economics of the Elderly; Economics of the Handicapped; Non-labour Market Discrimination

J26 Retirement; Retirement Policies

Keywords

Home equity release, reverse mortgage, wealth decumulation, retirement

Table of Contents

1	Introduction	1
2	Literature summary	2
3	Reverse mortgages	4
3.1	The reverse mortgage market	4
3.2	Reverse mortgages explained	4
3.3	Features	5
3.4	Costs	7
3.5	Reverse mortgages in Australia	9
4	Home reversion	11
4.1	The home reversion market	11
4.2	Home reversion explained	11
4.3	Features	12
4.4	Costs	13
4.5	Home reversion in Australia	14
5	Potential market for home equity release products in New Zealand	15
5.1	Descriptive statistics	16
5.2	Distribution of net worth	19
5.3	Distribution of income	21
5.4	Characteristics of asset-rich, income-poor retiree households	23
5.5	Conclusion	25
6	Worked examples	26
6.1	Reverse mortgage worked examples	26
6.2	Home reversion worked example	33
7	Discussion	36
7.1	Scenarios where home equity release might be beneficial	36
7.2	Scenarios where home equity release might not be beneficial	37
7.3	Alternatives to home equity release	38
7.4	Policy implications	39
8	Conclusion	41
	References	43
	Appendix	46
	A1. The Household Economic Survey	46
	A2. Appendix tables and figures	47

List of Tables

Table 1: Summary of New Zealand reverse mortgage products	5
Table 2: Key features of New Zealand reverse mortgages	6
Table 3: Reverse mortgage rates compared with traditional mortgage rates in selected countries	8
Table 4: Summary of Lifetime Home (home reversion plan)	11
Table 5: Key features of Lifetime Home (home reversion plan)	12
Table 6: Sample sizes in Household Economic Survey Net Worth modules	15
Table 7: Characteristics of retiree and pre-retirement households in HES Net Worth survey years	18
Table 8: Summary statistics on assets and liabilities for retiree and pre-retirement households	20
Table 9: Gini coefficients of wealth and income for retiree households	21
Table 10: Summary statistics on income for retiree and pre-retirement households	22
Table 11: Marginal effects on the probability of being asset-rich, income-poor for retiree households	24
Appendix Table 1: Definition of income, asset and liability categories	47
Appendix Table 2: Summary statistics on income, by age group and household composition	49
Appendix Table 3: Characteristics of wealth-income groups	50
Appendix Table 4: Average house price inflation and floating mortgage rates in New Zealand in the last 1-30 years	51

List of Figures

Figure 1: Effect of monthly drawdowns on equity	27
Figure 2: Effect of the interest rate on equity	28
Figure 3: Effect of house price growth on equity	29
Figure 4: Effect of the borrowing amount on equity	30
Figure 5: Effect of loan duration on interest owed	31
Figure 6: Effect of delayed drawdown on equity	32
Figure 7: Effect of the equity protection option on equity	32
Figure 8: Share in home sale proceeds after purchasing the Lifetime home reversion plan	34
Figure 9: Reverse mortgage equivalent of the Lifetime home reversion plan	34
Appendix Figure 1: Lorenz curves of wealth and income for retiree households	52

1 Introduction

With an ageing population and an average life expectancy of 20-22 years at age 65,¹ an increasing number of New Zealand retirees are facing the challenge of funding their retirement for 20 years or more. For many, this will involve drawing down on savings to supplement retirement incomes in funding consumption and maintaining wealth for future decumulation. For others, a lack of savings means a strong dependence on NZ Superannuation as the main source of retirement income. Forty percent of people aged 65 and above have virtually no other income besides NZ Superannuation, and another 20% only have a little more (Te Ara Ahunga Ora, 2022). This is problematic because NZ Superannuation is not enough to fund the standard of living most retirees aspire to achieve. The 2023 Retirement Expenditure Guidelines show that weekly NZ Superannuation rates are below what is needed to fund both a no-frills lifestyle and a lifestyle with some luxuries and treats (Matthews, 2023). Furthermore, household living costs for retirees rose by around 21% during 2020-2024, compared with just 9% during 2016-2020, placing significant pressure on their disposable income (Heyes, 2024). This means alternative sources of income are needed to help more retirees achieve a better standard of living.

An emerging concern is the existence of ‘asset-rich, income-poor’ retirees: those who own their home outright but are struggling to get by in retirement due to having low income (Te Ara Ahunga Ora, 2022). A natural solution would be to encourage such retirees to access the equity in their homes by downsizing. However, there is evidence that people are finding it difficult to downsize into smaller homes due to a lack of appropriate properties (Te Ara Ahunga Ora, 2022), and some retirees may prefer to stay in their homes and age in place. Therefore, home equity release schemes such as reverse mortgages and home reversion plans may be an appropriate option for retirees looking to access the equity in their home without having to move.

This paper examines whether home equity release schemes available in New Zealand provide value for money and how they might provide a suitable form of retirement income for some people. The rest of the paper proceeds as follows. Section 2 summarises the literature on home equity release schemes. Sections 3-4 respectively review reverse mortgage and home reversion schemes available in New Zealand. Section 5 provides an overview of the potential market for home equity release products in New Zealand. Worked examples of home equity release schemes are provided in Section 6. Section 7 discusses the pros and cons of the schemes and suggests when those schemes might be useful before concluding in Section 8.

¹ Using Statistics New Zealand’s ‘How long will I live’ calculator <https://www.stats.govt.nz/tools/how-long-will-i-live/>, setting the age to 65 and assuming medium death rates.

2 Literature summary

There are two main home equity release schemes: reverse mortgages and home reversion plans. A reverse mortgage is a loan that allows homeowners aged 60 and above to borrow against the value of their home. Unlike a traditional loan, a reverse mortgage does not require any repayments to be made. Instead, the loan is repaid from the sale proceeds of the home when the homeowner decides to move out or passes away. Any equity remaining after paying back the loan is returned to the homeowner. There is no set term for the loan, meaning the homeowner can live in their home for as long as they wish. A home reversion plan involves the homeowner selling a portion of their home in exchange for a lump sum of cash or stream of income payments. When the home is sold, the home reversion provider will receive a share of the sale proceeds and the homeowner or their estate will receive the rest. Although the homeowner no longer fully owns the home, they are allowed to live in it for as long as they wish. Furthermore, a home reversion plan does not involve any debt.

An often-cited benefit of home equity release schemes is their potential to increase economic wellbeing by providing access to liquid wealth that can be spent on anything. By making equity accessible before the home is sold, home equity release schemes allow homeowners to smooth consumption during their retirement and avoid holding a large nest egg at death (Baily et al., 2019). Empirical support for the impact of home equity release schemes on economic wellbeing is mixed. Ong (2008) shows that Australian elderly homeowners can receive a net gain in income of 71 percent from reverse mortgages, and as many as 95 percent of income-poor elderly homeowners can be lifted out of poverty. In contrast, Hancock (1998) finds only small potential gains in net income from reverse mortgages for elderly homeowners in the UK. Merrill et al. (1994) suggest that reverse mortgages could represent a substantial increase in income, but only for a relatively small group of elderly homeowners. In terms of welfare, Hanewald et al. (2016) employ a calibrated life-cycle model to show that home equity release schemes provide utility gains by increasing liquid wealth and facilitating greater consumption. In contrast, Michelangeli (2010) finds that reverse mortgages are likely to reduce expected utility for house-rich, income-poor households due to the reduced consumption arising from large up-front charges and the repayment of accumulated debt when moving home.

Although the direct economic benefits of home equity release products are ambivalent, there are several other benefits that have been outlined by the literature. First, home equity release schemes provide access to liquid wealth without requiring retirees to leave their homes. Some retirees may prefer to age in place because they have strong emotional attachments to their homes (Wiles et al., 2009; Baily et al., 2019; Loibl et al., 2020). Thus, home equity release schemes

may be preferred to equity release alternatives that require the retiree to move home, such as downsizing. Second, reverse mortgages have been shown to increase the domain satisfaction of borrowers. Moulton et al. (2017) find that most homeowners were generally satisfied with their reverse mortgage decision and thought it improved their quality of life, while Loibl et al. (2020) show that reverse mortgage borrowers have significantly higher financial and housing satisfaction than non-borrowers. Finally, home equity release schemes can protect retirees from longevity risk and improve their resilience to financial shocks (Knaack et al., 2020).

Some studies explore the demographic characteristics of reverse mortgage borrowers and estimate who would gain the most from obtaining a reverse mortgage. In line with the expectation that reverse mortgages are for asset-rich and income-poor retirees, Moulton et al. (2017) find that reverse mortgage borrowers tend to have lower incomes, very low non-housing assets, and greater home equity than the general population. Reverse mortgage borrowers are also less likely to have bequest motives. In addition, Nakajima and Telyukova (2017) find that retirees who use reverse mortgages tend to have low health. Ong (2008) estimates that very elderly, single, female homeowners with significant housing equity are likely to receive the most gains from reverse mortgages.

Despite the possible gains for asset-rich, income-poor retirees, much of the literature documents a lower-than-expected uptake of reverse mortgages (Lucas, 2018; Baily et al., 2019). Only a small portion of retirees make use of these products worldwide, with many considering it as a last resort option for emergencies as opposed to a way to help fund general consumption (Reyers, 2022). Common explanations for the low demand include high fees, limited understanding by consumers, perceptions of poor value, uncertainty about future health and expenses, and bequest motives (Nakajima and Telyukova 2017; Baily et al., 2019; Reyers, 2022). Another possibility is that current offerings from financial providers are inadequate due to a lack of competition. For example, the Australian Securities and Investment Commission finds that the Australian reverse mortgage market is characterised by high concentration, high barriers to entry, and high switching costs for consumers (ASIC, 2018). Such market characteristics may affect competition and consequently consumer outcomes in the form of higher prices and poorer quality products (ASIC, 2018).

3 Reverse mortgages

3.1 The reverse mortgage market

The reverse mortgage market in New Zealand is relatively small and lacks competition. Reverse mortgage borrowing represents 0.14% of overall lending in New Zealand (Reyers, 2022) and is only provided by two non-mainstream banks. The major banks appear uninterested in the market due to the complexities of the product and potential reputational risk (Hatton, 2022). This may change given the rising interest in reverse mortgages. In the six months ended December 2023, Heartland Bank reported a 18.7% increase in the value of reverse mortgages balances, reaching a total value of \$972 million (Heartland Group, 2024).² The bank cites cost-of-living pressures faced by elderly homeowners and increased acceptance of reverse mortgages as the main drivers of growth (Heartland Group, 2023).

Despite growing interest, reverse mortgages are not seen in a positive light in New Zealand. Many New Zealand retirees are aware of reverse mortgages but hold a strong dislike and mistrust towards them (Gamble, 2022). Reasons for this include an unwillingness to release equity from a home the individual has worked hard to obtain, the belief that the interest owing will mean the house is owned by the bank, and a concern over ‘sharks’ taking advantage of older people (Gamble, 2022). Furthermore, consumer advisory groups are hesitant to recommend reverse mortgages, warning consumers about high borrowing costs and the limitations they can impose on meeting future financial needs. The consensus among websites like Consumer, MoneyHub, and Canstar appears to be that reverse mortgages are a last resort option and are not appropriate for everyone.

3.2 Reverse mortgages explained

As summarised by Table 1, there are currently two reverse mortgage products on offer in New Zealand, provided by Heartland Bank and SBS Bank.³ Both products follow the standard reverse mortgage model and are similar in their design, features, and costs. They allow homeowners aged 60 and above to borrow against the value of their home whilst being able to live in their home for as long as they wish. The amount that can be borrowed depends on the homeowner’s age and the value of their home. The total loan amount is repayable when the home is sold, which occurs either when the homeowner passes away or decides to move out.

² In comparison, the corresponding value owned by Heartland Bank in the Australian reverse mortgage market is \$1.688 billion.

³ The Police Credit Union offer a reverse mortgage product exclusively to its members. The product contains similar features to the other reverse mortgages, but offers a lower interest rate and requires homeowners to be at least 70 years old. Due to its exclusive access, we do not include it in our assessment of reverse mortgage products in New Zealand.

Table 1: Summary of New Zealand reverse mortgage products

	Heartland Bank	SBS Bank
Equity release amount	The maximum % of the home's value available to borrow is 20% at age 60, up to a maximum of 50% at age 90+	The maximum % of the home's value available to borrow is 15% at age 60, up to a maximum of 50% at age 95+
Features	<ol style="list-style-type: none"> 1) Maximum loan ratio 2) Flexible drawdown options: lump sum, monthly advances, cash reserve (line of credit) 3) No repayments 4) Lifetime occupancy guarantee 5) No negative equity guarantee 6) Nominated residents (lifetime occupancy for partners) 7) Equity protection option 	<ol style="list-style-type: none"> 1) Maximum loan ratio 2) Line of credit drawdown 3) No repayments 4) Lifetime occupancy guarantee 5) No negative equity guarantee 6) Nominated residents (lifetime occupancy for partners) 7) Equity protection option
Costs	<p>Interest rate: 10.5% p.a.</p> <p>Upfront costs: initial arrangement fee, valuation fee, independent legal advice, independent financial advice (optional)</p> <p>Ongoing costs: home maintenance including insurance and rates</p> <p>Other fees (payable after certain actions): mortgage discharge fee, monthly advance fee, loan variation fee, further advance fee, cash reserve fee, administration fee, agency fee, equity protection option fee</p>	<p>Interest rate: 9.95% p.a.</p> <p>Upfront costs: lender legal fee, independent valuation, independent legal advice, independent financial advice (optional)</p> <p>Ongoing costs: home maintenance including insurance and rates</p> <p>Other fees (payable after certain actions): consent fee, discharge fee, other</p>

Note: Information is up to date as of 5 June 2024.

The money received from a reverse mortgage can be spent on anything. Reverse mortgage borrowers in New Zealand typically use the money to pay for home improvements, day-to-day expenses, holidays, debt consolidation, and healthcare (SBS Bank, 2024).

To be eligible for a reverse mortgage, potential borrowers must seek independent legal advice. They are also strongly encouraged to seek independent financial advice and to talk to family before taking out the loan. Other eligibility requirements include meeting minimum property requirements related to the value, location, and size of the home. Also, the homeowner must not have a mortgage on the home, unless they use the reverse mortgage to pay it off.

3.3 Features

In 2008 the Ministry of Social Development published a code of standards for organisations that offer reverse mortgages.⁴ Although the code is voluntary and not legally binding, both Heartland Bank and SBS Bank appear to follow the advice it provides by implementing features within their reverse mortgages that help to protect the borrower from certain risks. Other features benefit

⁴ See <https://www.beehive.govt.nz/release/home-equity-code-practice-approved>

borrowers by providing them with different options to suit their needs. This section explains how these features work (also summarised in Table 2) and how they benefit borrowers.

Table 2: Key features of New Zealand reverse mortgages

Features	Description
Maximum loan ratio	The maximum amount that can be borrowed with a reverse mortgage is determined by the maximum loan ratio, which is calculated as a percentage of the home's current value. The ratio depends on the homeowner's age, with older homeowners being allowed to borrow more.
Flexible drawdown options	Reverse mortgage loans can be received as a lump sum, series of regular payments, or line of credit. Interest is only charged on the amount that has been drawn down.
No repayments	The homeowner is not required to make any repayments until the end of the loan, although they are typically permitted to do so at any time.
Lifetime occupancy guarantee	The homeowner remains the registered owner of the home and can live in it for as long as they wish. There is no set end date for the loan.
No negative equity guarantee	The amount required to repay the loan will never exceed the sale proceeds of the home. In other words, if the sale proceeds of the home are not enough to repay the loan (negative equity), the homeowner does not have to repay the shortfall.
Nominated residents	Nominated residents are those who reside in the property over which the reverse mortgage is held. Nominating a spouse or partner as a resident allows them to remain in the home even if the homeowner moves out or passes away.
Equity protection option	Option to protect a percentage of the value of the home. This means when the home is sold, the homeowner is guaranteed to receive at least the chosen equity protection percentage of the sale proceeds.

Maximum loan ratio: The maximum loan ratio limits the amount that can be borrowed and is based on the homeowner's age and value of their home. The older the homeowner, the more they are permitted to borrow. The ratio works to prevent the loan balance from exceeding the future sale proceeds of the home by limiting the amount of interest that can accrue. This benefits the homeowner by increasing the likelihood that there will be equity remaining to them when the home is sold. It also benefits the lender since they cannot collect any further payments from the homeowner if the loan balance exceeds the sale proceeds of the home.

Flexible drawdown options: Reverse mortgages can provide cash in a form that best suits the borrower's needs. In New Zealand, reverse mortgage loans can be received as a lump sum to use for big expenditures or set up as a line of credit to be drawn down for future needs. Interest is only charged on the amount that has been drawn down, making reverse mortgages an appropriate option if equity needs to be accessed at an unknown date, such as in an emergency. Heartland Bank also offers a monthly advance option, which can be used to supplement NZ Superannuation and help cover day-to-day expenses.

No repayments: Reverse mortgage borrowers are not required to make any repayments during the loan term but can choose to do so at any time (usually at no cost). This gives borrowers the option to not make repayments and free up some of their disposable income. This may be ideal for 'asset-rich, income-poor' households.

Lifetime occupancy guarantee: The lifetime occupancy guarantee means the homeowner is allowed to live in their home for as long as they wish. This provides the homeowner with the assurance that they can age in place without the threat of eviction, given certain terms of the loan agreement are met.

No negative equity guarantee: The no negative equity guarantee means that if the sale proceeds are not enough to repay the loan, the homeowner is not required to pay the shortfall. This ensures the homeowner will never owe more than what their home is worth and protects them from negative equity if house prices fall substantially. Moreover, this guarantee works alongside the lifetime occupancy guarantee to ensure that the homeowner cannot be forced to sell the home if the loan balance exceeds the value of their home.

Nominated residents: Nominated residents are those who reside in the property over which the reverse mortgage is held. Typically, this involves the homeowner and their spouse or partner. Nominating a spouse or partner as a resident allows them to remain in the home even if the homeowner moves out or passes away.

Equity protection option (EPO): The homeowner may choose to protect a percentage of the value of their home with the EPO. This means that when the home is sold, the homeowner is guaranteed to receive at least the chosen equity protection percentage of the sale proceeds regardless of the size of the loan balance. Hence, choosing this option guarantees that the homeowner will have equity remaining to either spend on things like healthcare or leave behind for family.⁵

3.4 Costs

The main cost of a reverse mortgage is the interest, which compounds monthly and is charged using a variable rate. As of August 2024, the reverse mortgage rate at Heartland Bank and SBS Bank is 10.5% p.a. and 9.95% respectively. By comparison, the floating mortgage rates are 7.99% p.a. and 8.74% respectively.

Reverse mortgage rates tend to be higher than traditional mortgage rates because the lender takes on greater risk with a reverse mortgage. Since the lender does not know how long the homeowner will remain in their home for, there is uncertainty around when the mortgage will be repaid (and if the value of the home will cover the full amount). Furthermore, the lack of repayments during the term of a reverse mortgage means the lender lacks a steady income flow,

⁵ Both Heartland Bank and SBS Bank note that choosing EPO reduces the maximum amount that can be borrowed (<https://www.heartland.co.nz/Uploads/Seniors/Resources/reverse-mortgage-brochure.pdf>, page 7, and <https://www.sbsbank.co.nz/home-loans/reverse-equity-mortgage>).

creating liquidity risk. Other possible reasons for higher rates include the complexity of servicing reverse mortgages and a lack of competition in the reverse mortgage market (Nichols, 2023).

As shown in Table 3, in New Zealand reverse mortgage rates are about 2.5 percentage points higher than traditional mortgage rates, similar to the margin observed in Australia. The margin is lower in Canada (1.9 percentage points) and the US (1.5-1.9 percentage points), probably reflecting more competition in these markets. The margin is the lowest (1 percentage point) in the UK, reflecting the overall lower mortgage interest rates in that country.⁶ In relative terms, the ratio of the reverse mortgage rate relative to the traditional mortgage rate is very similar between the UK and the US, and between New Zealand, Australia, and Canada.

Nevertheless, the level of reverse mortgage interest rates is much higher in New Zealand than in comparator countries despite strikingly similarly official cash rates and headline inflation rates. This is also true of traditional mortgage rates, and is likely to reflect the small New Zealand market for financial products in general rather than just the market for reverse mortgages in particular.

Table 3: Reverse mortgage rates compared with traditional mortgage rates in selected countries

Country	Reverse mortgage rate (A)	Traditional mortgage rate (B)	Note	A-B	A/B	Official cash rate	Headline CPI rate ^a
New Zealand ^b	10.5%	7.99%	Heartland, variable rate for A/floating rate for B	2.51 pct points	1.31	5.5%	3.3%
Australia ^b	9.22%	6.74%	G&C Mutual Bank, variable/floating rate	2.48 pct points	1.37	4.35%	3.8%
Canada ^b	8.24%	6.34%	Equitable Bank, 1-year fixed for both	1.90 pct points	1.30	4.75%	2.7%
United States	8.06% ^c	6.56% ^d	Fixed for both	1.50 pct points	1.23	5.25-5.5%	3%
United Kingdom	5.75% ^e	4.76% ^f	Fixed for both	0.99 pct points	1.21	5%	2.8%

Notes: Information is current as of 9 August 2024.

^aFor the year to June 2024.

^bFor easy comparison we select financial providers that offer both traditional mortgages and reverse mortgages.

^cSee <https://reverse.mortgage/rates>

^dNational average for a 30-year loan, according to <https://www.bankrate.com/mortgages/mortgage-rates/>

^eThe lowest equity release interest rate in the UK, see <https://www.later-life-planning.co.uk/compare-equity-release>.

^fThe lowest headline rate for conventional mortgages, see <https://www.nerdwallet.com/uk/mortgages/mortgage-rates/>

⁶ Different types of interest rates are shown because variable interest rates are typically offered for reverse mortgages in New Zealand and Australia but fixed rates dominate in the other countries.

Since interest compounds monthly and repayments are not required, the debt burden of a reverse mortgage can grow to a large amount within a short period of time. Moreover, because the interest rate can change during the loan term, it is possible for the total amount of interest owed to be greater than expected. A large debt burden can cause serious financial complications for the future. If the loan balance is significantly large, there may be little to no equity remaining to the homeowner when the home is sold. This means a reverse mortgage may not be appropriate for retirees who plan to sell their home and use the remaining equity for a given purpose, such as moving into long-term care or paying for rising healthcare costs. Hence, a hidden cost of reverse mortgages is the erosion of equity and the financial limitations this may impose on the borrower in the future.

In addition to the interest costs, reverse mortgages involve numerous fees relating to the establishment and servicing of the loan. Upfront costs to establish the loan, such as arrangement, valuation, and legal fees, may add up to several thousands of dollars,⁷ presenting a barrier for some retirees. Although such costs may be added to the loan, borrowers should opt to pay for them out of pocket to avoid the interest that would accrue on the costs. Ongoing expenses must also be met to avoid default. These include insurance payments, rates, and other maintenance costs.

3.5 Reverse mortgages in Australia

The reverse mortgage market is bigger in Australia, with four institutions offering six reverse mortgage products. The maximum amount that can be borrowed from these products depends on the borrower's age and ranges between 15-50% of the value of the borrower's home. Interest rates are lower than those in New Zealand, ranging from 8.65-9.75%. Nevertheless, the margins between reverse mortgage and traditional mortgage interest rates are very similar in the two countries, as shown in Table 3. Unlike in the New Zealand market, there is some product heterogeneity. For example, Heartland Bank offers an express reverse mortgage for retirees who would like to release a small amount of equity at a lower interest rate. They also offer a premium reverse mortgage to customers in Sydney and Melbourne with homes valued above AU\$10 million.

Australian reverse mortgages contain the same key features as New Zealand reverse mortgages: maximum loan ratio (or specified maximum borrowing amount), flexible drawdown options, no repayments, lifetime occupancy, no negative equity, nominated residents, and EPO. Some Australian reverse mortgages offer additional features. For example, Heartland Bank offers

⁷ For example, Heartland's current fees are \$600-\$855 for valuation, \$920 for arrangement, and \$55 for equity protection.

an aged care option that allows the borrower to take out a reverse mortgage and reside in (or move into) permanent long-term care during the loan term. Another example is the reverse mortgage by G&C Mutual Bank which allows borrowers to access the funds through online banking, phone banking, and a debit card.

In addition, the Australian government provides the Home Equity Access Scheme⁸ which lends to retirees using their real estate as security for the loan. The current interest rate for this scheme (3.95%) is very low compared with commercially provided reverse mortgage rates or traditional mortgage rates and even lower than the official cash rate (4.35%, see Table 3), implying that the government incurs a loss to provide this scheme. This scheme is essentially a social security programme to help supplement retirement income for asset-rich, income-poor retirees who are ineligible for, or only eligible for reduced rates of, the Age Pension due to their high wealth.⁹ While borrowers benefit from below-market interest rates, there is a limit to how much they can borrow, such that the combined loan and pension payment each fortnight does not exceed 150% of the maximum pension rate, and no further drawdown is allowed when the maximum loan amount is reached.

⁸ See <https://www.servicessaustralia.gov.au/home-equity-access-scheme>.

⁹ Unlike NZ Superannuation, which is universal barring a residency test, Australia's Age Pension is subject to income and asset tests.

4 Home reversion

4.1 The home reversion market

The New Zealand home reversion market did not exist until Lifetime Retirement Income released their Lifetime Home product in 2024. Essentially a home reversion plan, Lifetime Home allows homeowners to release equity in their home by selling a percentage interest in their home in exchange for income payments. Unlike a reverse mortgage, Lifetime Home is a debt-free equity release scheme. Since the product is the first of its kind, little is known about its benefits and risks to retiree homeowners in New Zealand.

4.2 Home reversion explained

Lifetime Home is designed for people aged 70 and above. It works by having the homeowner sell to Lifetime a 35% interest in their home,¹⁰ which accrues over a ten-year period at 3.5% per annum. In other words, Lifetime's interest in the home begins at 0% and grows until it reaches 35% after 10 years.

Table 4: Summary of Lifetime Home (home reversion plan)

Equity release amount	25% of the initial value of the home (less fees)
Features	<ol style="list-style-type: none"> 1) Fortnightly income 2) Lifetime occupancy (for single and couple homeowners) 3) Debt-free equity release 4) Assurance around future equity 5) Lifetime's interest in the home accrues over time rather than beginning at the full agreed share
Costs	<p>Upfront costs: establishment fee, independent legal advice, home valuation, independent financial advice</p> <p>Ongoing costs: annual fees, home maintenance including insurance and rates</p> <p>Other costs: opportunity costs related to the discounted price paid by Lifetime for the interest in the home and the forgone benefit from home value appreciation</p>

As summarised in Table 4, the price Lifetime pays for the 35% interest in the home is 25% of the current value of the home. This purchase price is paid to the homeowner in the form of fortnightly or monthly payments paid out over 10 years. This means that the homeowner will receive an annual income of 2.5% of the current value of their home (less fees and charges) for 10 years.

When the regular payments stop after 10 years, the homeowner retains 65% ownership of their home while Lifetime obtains the other 35%. Although partial ownership of the home is sold

¹⁰ It is unclear if the homeowner has the option to choose how much of their home they initially sell to Lifetime. Lifetime states that in most cases the homeowner will sell a 35% interest, so we conduct our assessment of the product assuming this will be the percentage most potential customers sell.

to Lifetime, the homeowner can remain in their home for as long as they wish given certain terms of the agreement are met, including paying an ongoing fee of \$1,000 (CPI-adjusted annually) per year after year 10. When the home is sold, the sale proceeds are shared between the homeowner and Lifetime based on the proportions of the home they own. It is implied that regardless of whether the value of the home has increased or decreased, Lifetime will receive 35% of the sale proceeds and the homeowner will receive the remaining 65%.

There is an option to extend the original equity release agreement. The payments will typically cease after 10 years, but the homeowner can request to release further equity in exchange for a continued income stream. Any further equity released cannot exceed 50% of the home's value.

To be eligible for Lifetime Home, the homeowner must be at least 70 years old and seek independent legal advice. They are also strongly advised to seek independent financial advice and to talk with family before agreeing to the home reversion plan. Furthermore, the home must be owner-occupied and be the primary residence of the homeowner. It should also be mortgage-free and adequately insured.

4.3 Features

This section describes Lifetime Home's key features, which are also summarised in Table 5.

Table 5: Key features of Lifetime Home (home reversion plan)

Features	Description
Regular income	Lifetime Home provides a guaranteed income stream, typically paid fortnightly.
Lifetime occupancy	The homeowner can live in their home for as long as they wish, conditional on meeting certain terms of the agreement. If the agreement is entered as a couple and one member moves out, the other member can continue to live in the home.
Debt-free	Lifetime Home is a debt-free equity release scheme, meaning there is no interest payments or debt involved.
Assurance around future equity	The homeowner knows from the outset how much of their home they will own after 10 years. Furthermore, the homeowner is guaranteed to receive a portion of the sale proceeds of their home.
Cumulative interest in the home	Lifetime's interest in the home begins at 0% and accumulates by a small percentage each year until reaching 35%. In other words, Lifetime's interest in the home increases each time income is paid to the homeowner.

Regular income: Rather than a lump sum, Lifetime Home provides a guaranteed income stream that is typically paid fortnightly and on the same day as NZ Superannuation. Homeowners are guaranteed to receive this income for 10 years. This income is not inflation-adjusted, as noted in section 4.4 below.

Lifetime occupancy: The homeowner maintains the right to live in their home for as long as they wish. This provides the homeowner with the assurance that they can age in place without

the threat of eviction, given certain terms of the agreement are met. Furthermore, if a couple signs the agreement, both members are guaranteed lifetime occupancy. This means that if one member dies, the surviving partner can continue to live in the home for as long as they wish and will continue to receive the income payments.

Debt-free: Lifetime Home is a debt-free equity release scheme, meaning there are no interest costs involved with releasing equity. The income payments the homeowner receive are not borrowed and instead are derived from the equity the homeowner sells to Lifetime.

Assurance around future equity: The homeowner knows from the outset how much of their home they will own after 10 years. Since there is a limit on how much of the home the homeowner can sell to Lifetime, the homeowner is guaranteed to receive some of the sale proceeds of their home. Although the actual amount received is uncertain (due to the unpredictability of house price growth), there is certainty around the homeowner's share of the future sale proceeds of their home.

Cumulative interest in the home: The homeowner is not locked into selling 35% of their home to Lifetime when they sign the agreement. Instead, Lifetime's interest in the home begins at 0% and accrues by a small percentage each year. Thus, if the home is sold before 10 years has passed, Lifetime's share of the sale proceeds will be less than 35%. For example, if the homeowner sells their home after 4 years, Lifetime will receive 14% of the sale proceeds. This means that the homeowner is not punished for selling their home early. Although selling the home early means forgoing the remaining income payments, a smaller share of the home's sale proceeds will be owed to Lifetime. Hence, the homeowner is not forced to receive the full 10 years' worth of income payments to make the home reversion plan worth it. Instead, they can opt to receive fewer income payments in exchange for giving away a smaller interest in their home. This may be particularly useful in scenarios where the homeowner has to sell their home early due to unforeseen circumstances.

4.4 Costs

The main cost of Lifetime Home may not be fully clear to the homeowner because it is not directly attributable to a fee or charge. In each year for up to 10 years, the homeowner gives up 3.5% of the future equity in their home in exchange for releasing 2.5% of the current equity in their home. This foregone equity can be interpreted as the implicit or opportunity cost of the home reversion plan, since the sale proceeds that go to Lifetime is money that the homeowner could have received if they had not signed up to the home reversion plan.

In addition to the foregone equity, homeowners must also pay some upfront costs and ongoing fees. The former includes an establishment fee of 0.2% of the initial value of the home and independent costs relating to obtaining legal advice and a valuation of the home. Ongoing fees include annual fees of 0.23% of the initial value of the home and a \$1,000 fee that is introduced after ten years (which increases each year by the change in the CPI for that year). Moreover, homeowners are also required to pay for home insurance, rates, taxes, and any other liabilities related to the home.

It should be noted that with Lifetime Home the purchasing power of the income received decreases over time due to inflation. Since the income received per year is fixed, the income received in 10 years will be worth less than the income received this year.

4.5 Home reversion in Australia

There is only one home reversion plan on offer in Australia. Provided by Homesafe Solutions, Homesafe Wealth Release is a debt-free equity release product offered to homeowners aged 60 and above. Like a standard home reversion plan, it involves the homeowner selling a share of their home in exchange for cash. The homeowner also retains the right to live in their home and can choose to sell it when they want to.

There are three key differences between Homesafe Wealth Release and Lifetime Home. First, Homesafe Wealth Release provides access to equity in the form of a lump sum payment, rather than a regular income stream. Second, the homeowner sells a share of the future sale proceeds of the home as opposed to an interest in the home. Accordingly, unlike with Lifetime Home, the homeowner remains the legal owner and maintains full ownership of the home. Third, the share (up to 65%) of the future sale proceeds of the home sold to Homesafe can be chosen by the homeowner, whereas it is unclear if the same can be done with Lifetime Home. The main direct cost of this scheme is a one-off documentation fee of A\$1,790.

There are many additional features of Homesafe Wealth Release that differentiate it from Lifetime Home, which are as follows:

- The homeowner can rent out the home and retain the rent income;
- There is no requirement to sell the home if the homeowner moves into aged care;
- The homeowner can buy back the sold share at any time;
- If the home is sold earlier than expected, the homeowner may receive a rebate which increases the amount of equity remaining to them when the home is sold;
- There are no ongoing property maintenance requirements.

5 Potential market for home equity release products in New Zealand

Retirees are the potential market for home equity release products. This section uses data from the Household Economic Survey (HES) to provide an overview on the wealth and income of retiree households in New Zealand. The data source is described in Appendix A1. After describing demographic characteristics of retiree households, this section presents summary statistics and measures of inequality on wealth and income for retiree households. A regression analysis is used to identify the characteristics of asset-rich, income-poor retiree households.

In the literature a retiree household is commonly defined as one that contains at least one person who has retired from working due to old age or a household where someone has reached the traditional retirement age of the country. In either case, not all individuals who live in a retiree household are retirees. In this paper, we define retiree households as those where at least one member has reached age 65, the age at which the vast majority of New Zealand residents are eligible for New Zealand Superannuation, irrespective of whether that person has retired from the workforce. Pre-retirement households are defined as those whose oldest member is aged 55-64.

Table 6 contains information on sample sizes for the last two HES Net Worth modules.¹¹ HES 2020/21 has 4,400 responding households and 11,600 individuals. When weighted these represent 1.86 million households and just over 5 million people. The retiree sample contains 1,272 households and 2,457 individuals, whereas the pre-retirement sample contains 912 households and 2,178 individuals. These samples are slightly larger than the corresponding samples for HES Expenditure as reported in Le and Richardson (2023).

Table 6: Sample sizes in Household Economic Survey Net Worth modules

	2017/18		2020/21	
	Unweighted	Weighted	Unweighted	Weighted
All households	5,484	1,734,000	4,437	1,864,000
All individuals	14,220	4,773,000	11,574	5,020,000
Retiree households	1,608	494,000	1,272	543,000
Individuals in retiree households	3,021	1,011,000	2,457	1,113,000
Pre-retirement households	1,095	334,000	912	372,000
Individuals in pre-retirement households	2,517	855,000	2,178	950,000

Source: Household Economic Survey

Note: Not all individuals who live in a retiree household are retirees. Sample sizes for 2020/21 are for the Net Worth module; the Income module has larger samples, see footnote 31 for details.

¹¹ As required by Statistics New Zealand's microdata confidentiality protocols, all unweighted counts of individuals and households in the HES reported in this paper have been randomly rounded to base 3, while weighted counts have been rounded to the nearest 1000. Proportions have been calculated based on rounded counts.

In 2017/18, 28.5% of New Zealand households had a retiree, rising to 29.1% in 2020/21. Thus, the potential market for home equity release products is almost 30% of households in New Zealand, or over half a million households.

5.1 Descriptive statistics

Table 7 contains descriptive statistics of our retiree and pre-retirement sample. These statistics have been weighted using the survey weights to be representative of the underlying population.¹² In 2020/21, 14% of retiree households have at least one Māori individual of any age, compared with 12% in 2017/18. Meanwhile, the share of pre-retirement households with a Māori individual increased from 18.3% to 22%. According to Census 2018, Māori accounted for 16.5% of the New Zealand population.¹³ The low share of Māori households among retiree households could be due to a number of factors, such as lower life expectancy for Māori,¹⁴ Māori living in larger households, or under-representation of Māori retiree households in the HES.

The share of retiree households with a migrant of any age increased from 32% to 40% between 2017/18 and 2020/21. The share of retiree households with at least one member still in employment increased over the sample period from 41% to 44%. The share of retiree households living with a dependent child (aged 14 or less) is stable at 5.7%. Over half (57%) of retiree households have the oldest member in the age range 65-74.

In terms of the highest education level of any household member, among retiree households, 21% have no qualification in 2020/21, 27% have some school qualification (Level 1-3 certificate, or equivalent), another 27% have a post-school qualification (Level 4-6 certificate/diploma), and 25% have a bachelor's degree or higher. Over 40% of retiree households are couples only and a third are singles living alone, with the remainder being made up of other types of households such as single retirees living with others and couples living with children. Almost two thirds of retiree households (65%) own their home outright, 15% own with a mortgage, 18% are rent-paying renters while the remaining 2% are rent-free renters.

In 2020/21, 29% of retiree households live in Auckland, 10% live in Wellington, 11% live in Canterbury, 37% and 13% live in the rest of the North and South Islands respectively. Across urban/rural sectors, 43% of retiree households live in major urban areas, 40% live in other urban areas, and 17% live in rural areas. The geographic distribution is similar in 2017/18.

¹² Unless otherwise stated, descriptive statistics presented in this paper have been weighted using the survey weights to be representative of the underlying population.

¹³ See <https://www.stats.govt.nz/tools/2018-census-ethnic-group-summaries/m%C4%81ori>

¹⁴ In 2017–2019 life expectancies for Māori males and females were 7.5 and 7.3 years lower than for their non-Māori counterparts, see <https://www.stats.govt.nz/information-releases/national-and-subnational-period-life-tables-2017-2019>.

In both 2017/18 and 2020/21, both the mean and median retiree household size is 2. Mean total annual household income after adjusting for inflation fell by 5.5% between the two survey years (\$87,600 to \$82,800 in June 2021 prices¹⁵) while median total income increased by 0.4% to \$57,200. Using the modified OECD equivalisation scale¹⁶ to account for household size and composition, mean household income decreased by 8.3% while median income increased by 4% over the three-year period.

Compared with retiree households, pre-retirement households are more likely to report having a dependent child (14% cf. 5.7% in 2020/21) and are twice as likely to have at least one adult member working (86% cf. 44%).

On average, pre-retirement households have higher qualifications, with 37% of pre-retirement households having a bachelors or postgraduate degree (compared to 25% of retiree households). In terms of household composition, pre-retirement households are much less likely to be couples only (31% cf. 42%) or singles living alone (22% cf. 34%) while twice as likely (47% cf. 24%) to have 'other' household type, mostly couples with dependent or adult children. Pre-retirement households are only half as likely to own their home outright (38% cf. 65%) and more likely to be paying rent (24% cf. 18%) than retiree households.

Pre-retirement households are also larger on average, with a mean household size of 2.56 individuals. Mean household income decreased by 6.9%, from \$134,700 to \$125,400 between 2017/18 and 2020/21, while median income decreased by 2.7%, from \$109,800 to \$106,900, generally reflecting falling incomes during the Covid-19 pandemic.

¹⁵ Unless otherwise stated, income and net worth figures from the HES presented in this paper have been deflated to June 2021 prices using the CPI. Between June 2018 and June 2021, the general Consumers Price Index increased by 6.6%, or 2.15% per annum.

¹⁶ This scale assigns a value of 1 to the first adult in a household, 0.5 to each additional adult (anyone aged 15 or older) and 0.3 to each child.

Table 7: Characteristics of retiree and pre-retirement households in HES Net Worth survey years

	2017/18		2020/21	
	Retiree	Pre-retirement	Retiree	Pre-retirement
Any Māori [#]	0.117	0.183	0.137	0.220
Any migrant [#]	0.321	0.338	0.402	0.444
In employment [#]	0.414	0.889	0.437	0.860
Has dependent children	0.057	0.126	0.057	0.137
<i>Age group (of oldest person)</i>				
75+	0.426		0.445	
65-74	0.572		0.557	
<i>Education (highest of anyone)</i>				
No qualification	0.242	0.078	0.210	0.121
School only or Level 1-3 cert.	0.259	0.246	0.268	0.239
Level 4-6 certificate	0.273	0.296	0.275	0.272
Degree	0.228	0.386	0.247	0.371
<i>Household composition</i>				
Couple only	0.453	0.359	0.424	0.306
Single living alone	0.331	0.180	0.336	0.218
All other	0.216	0.461	0.240	0.473
<i>Housing tenure</i>				
Owned outright	0.683	0.371	0.647	0.377
Owned with a mortgage	0.158	0.404	0.146	0.367
Paying rent	0.141	0.210	0.183	0.243
Rent free	0.016	0.012	0.024	0.013
<i>Region</i>				
Auckland	0.275	0.323	0.286	0.293
Wellington	0.107	0.108	0.101	0.110
Rest of North Island	0.352	0.353	0.369	0.352
Canterbury	0.137	0.105	0.111	0.124
Rest of South Island	0.127	0.111	0.135	0.118
<i>Urbanisation</i>				
Major urban	0.440	0.479	0.435	0.465
Other urban	0.394	0.320	0.399	0.341
Rural	0.166	0.201	0.166	0.191
<i>Mean</i>				
Household size	2.04	2.56	2.05	2.56
Total income	87,596	134,739	82,751	125,419
Equivalentised total income	57,383	78,605	52,609	72,211
Regular income	84,852	129,857	81,333	123,397
Equivalentised regular income	55,423	75,798	51,767	71,052
<i>Median</i>				
Household size	2	2	2	2
Total income	56,967	109,833	57,179	106,888
Equivalentised total income	38,020	62,948	39,551	62,266
Regular income	55,635	107,603	55,861	105,952
Equivalentised regular income	37,322	62,089	38,268	61,237
Number of households	1,608	1,095	1,272	912
Number of individuals	3,021	2,517	2,457	2,178

Source: Household Economic Survey

Note: All dollar values are in June 2021 prices. [#]Category = 1 if anyone in the household has the characteristic.

5.2 Distribution of net worth

Table 8 contains summary statistics on household assets and liabilities. In 2020/21 mean household net worth for retiree households is \$1.135 million (panel b), the difference between \$1.193 million in assets and \$58,700 in liabilities. At the mean level, total liabilities are valued at 4.6% of total assets. A third of household assets are in owner-occupied homes, a quarter in financial assets, a fifth in family trusts, and the remaining fifth in Investment property asset, Non-financial asset and Equity in farms and businesses. At least three quarters of retiree households have no Investment property asset or Equity in trusts and at least 90% have no Equity in farms and businesses.

Mean home equity (i.e., home asset less outstanding home loan, see Appendix Table 1) is \$370,000, while the upper-quartile value is \$600,000 and 90th percentile \$895,000. Combined with the numbers of households from Table 6, these indicate that about 136,000 retiree households have at least \$600,000 and over 54,000 retiree households have at least \$895,000 in home equity. These represent significant amounts of wealth locked in housing assets that could potentially be drawn down by retiree households using home equity release schemes.

Comparing panel b with panel a, between 2017/18 and 2020/21 assets decreased for all non-property categories, while liabilities increased for all categories at the mean level. As a result, total assets fell by 6% while total net worth fell by 7.4% for retiree households. Again, this reflects the weak economic conditions during the Covid-19 pandemic.

Comparing panel c with panel b, pre-retirement households have more liabilities and more assets other than owner-occupied homes. Overall, in 2020/21 pre-retirement households have 12.9% more assets and 6.9% more net worth than retiree households.

Table 8 shows that mean net worth is about twice as high as median net worth, suggesting substantial inequality in the distribution of net worth among households. Appendix Figure 1 plots Lorenz curves for key measures of household wealth (panel a). Even though two thirds of retiree households own their homes outright, about two fifths have no asset in owner-occupied homes.¹⁷ The bottom quintile have no wealth, whereas the top quintile own about 60% of total wealth among retiree households. Again, this indicates significant home equity held in the top quintile that can potentially be drawn down.

An alternative method for assessing inequality is the Gini coefficient. The Gini coefficient can be calculated as the ratio of the area between the line of perfect equality and the Lorenz curve

¹⁷ This could be due to a technicality. In housing tenure, home ownership includes ownership by a family trust or company controlled by a household member. In calculating wealth, asset in those houses is categorised under 'Equity in trusts' or 'Equity in farms and businesses'.

divided by the total area under the line of perfect equality. A higher Gini coefficient (the further is the Lorenz curve from the line of perfect equality) represents a greater level of inequality.

Table 8: Summary statistics on assets and liabilities for retiree and pre-retirement households

	Mean	Lower quartile	Median	Upper quartile	90th percentile
<i>a) Retiree households, 2017/18</i>					
Home asset	381,365	0	266,502	564,985	948,749
Investment property asset	79,677	0	0	0	213,202
Non-financial asset	120,764	45,305	90,611	191,882	239,852
Financial asset	316,384	11,726	70,357	310,093	767,561
Equity in farms and businesses	40,673	0	0	0	0
Equity in trusts	330,736	0	0	0	655,596
Home loan	27,098	0	0	0	41,574
Investment property loan	9,714	0	0	0	0
Other loan	6,969	0	32	3,198	16,312
Home equity	354,268	0	244,400	533,005	895,448
Total assets	1,269,030	319,803	696,051	1,378,884	2,718,870
Total liabilities	43,761	0	267	8,528	110,215
Total net worth	1,225,269	293,153	646,482	1,350,101	2,603,620
<i>b) Retiree households, 2020/21</i>					
Home asset	398,838	0	345,000	650,000	930,000
Investment property asset	118,907	0	0	0	445,000
Non-financial asset	103,448	28,750	68,000	140,000	240,500
Financial asset	300,217	16,000	81,100	298,300	755,765
Equity in farms and businesses	33,289	0	0	0	0
Equity in trusts	239,287	0	0	0	500,000
Home loan	28,927	0	0	0	26,000
Investment property loan	22,643	0	0	0	0
Other loan	7,149	0	150	3,000	16,971
Home equity	369,911	0	312,502	600,000	895,000
Total assets	1,193,369	326,250	742,068	1,416,750	2,561,400
Total liabilities	58,689	0	400	13,319	173,042
Total net worth	1,134,680	291,856	685,156	1,338,980	2,500,940
<i>c) Pre-retirement households, 2020/21</i>					
Home asset	379,526	0	305,000	620,000	920,000
Investment property asset	141,732	0	0	0	500,000
Non-financial asset	107,158	31,250	74,625	152,500	240,500
Financial asset	298,930	33,500	105,800	256,287	756,700
Equity in farms and businesses	45,516	0	0	0	0
Equity in trusts	376,200	0	0	0	371,000
Home loan	79,660	0	0	87,951	315,692
Investment property loan	40,413	0	0	0	14,000
Other loan	13,823	0	2,560	13,498	39,000
Home equity	299,867	0	175,000	490,000	840,000
Total assets	1,346,724	290,835	749,550	1,453,017	3,021,250
Total liabilities	133,664	1,000	20,000	150,640	401,000
Total net worth	1,213,060	209,386	602,560	1,269,432	2,805,710

Source: Household Economic Survey

Note: All dollar values are in June 2021 prices. Key categories are in bold. See Appendix Table 1 for definitions of assets and liabilities.

Table 9 shows the lowest inequalities are seen in Asset in owner-occupied homes (Gini coefficient of 0.31 in 2020/21) while the most unequal distributions are seen in Equity in farms and businesses and Financial asset (Gini coefficient of 0.78 and 0.73 respectively). Overall inequalities in all wealth categories fell between 2017/18 and 2020/21.

Table 9: Gini coefficients of wealth and income for retiree households

	2017/18	2020/21
<i>a) Asset/Equity</i>		
Home asset	0.3813	0.3117
Investment property asset	0.4743	0.4710
Non-financial asset	0.4621	0.4998
Financial asset	0.7601	0.7336
Equity in farms and businesses	0.8065	0.7784
Equity in trusts	0.5835	0.5362
Home equity	0.3999	0.3227
Total assets	0.5946	0.5634
Total net worth	0.5986	0.5662
<i>b) Income</i>		
Labour income	0.5256	0.4987
NZ Superannuation income	0.1883	0.1692
Workplace savings income	0.4414	0.5039
Investment income	0.7955	0.7298
Other benefits income	0.4874	0.6429
Other income	0.6185	0.6426
Irregular income	0.6411	0.7767
Total regular income	0.4490	0.4110
Total income	0.4532	0.4131

Source: Estimated from the Household Economic Survey

Note: Household wealth and income are *not* adjusted for size.

5.3 Distribution of income

Table 10 presents summary statistics on household income.¹⁸ In 2020/21 mean total household income for retiree households is \$82,800 (panel b), over 98% of which is regular income. Within regular income, on average 45% is from labour income, over a third from NZ Superannuation, 12% from investment, and the remaining 9% from workplace savings schemes, other benefits, and other regular income. Over half of retiree households have no labour income (i.e. median labour income = 0), consistent with the observation that only 44% of retiree households have a working adult (Table 7).

Comparing panel b with panel a, between 2017/18 and 2020/21, labour income, NZ Superannuation and other benefits incomes increased, but all other incomes decreased substantially, most noticeably investment income and irregular income. As a result, total regular income fell by 4.1% while total income fell by 5.5% for retiree households.

¹⁸ Income is not equivalised, unless specifically stated.

Table 10: Summary statistics on income for retiree and pre-retirement households

	Mean	Lower quartile	Median	Upper quartile	90th percentile
<i>a) Retiree households, 2017/18</i>					
Labour income	34,213	0	0	45,572	111,398
NZ Superannuation income	27,032	22,989	25,585	37,885	38,992
Workplace savings income	2,790	0	0	0	3,873
Investment income	17,525	0	666	9,187	42,640
Other benefits income	1,622	0	0	0	1,836
Other income	1,671	0	0	0	728
Irregular income	2,744	0	0	0	0
Total regular income	84,853	33,976	55,635	105,877	172,017
Total income	87,596	34,490	56,966	110,391	178,411
<i>b) Retiree households, 2020/21</i>					
Labour income	36,714	0	0	52,616	115,392
NZ Superannuation income	27,585	23,269	25,518	38,384	38,908
Workplace savings income	1,872	0	0	0	0
Investment income	10,044	0	312	7,600	29,811
Other benefits income	3,927	900	1,400	2,326	10,900
Other income	1,190	0	0	0	0
Irregular income	1,418	0	0	0	520
Total regular income	81,333	34,764	55,861	106,003	164,849
Total income	82,751	35,885	57,179	107,151	172,411
<i>c) Pre-retirement households, 2020/21</i>					
Labour income	105,273	36,750	90,342	144,194	215,908
NZ Superannuation income	335	0	0	0	0
Workplace savings income	518	0	0	0	0
Investment income	7,619	0	0	1,499	22,700
Other benefits income	7,132	0	0	8,360	26,738
Other income	2,522	0	0	0	4,494
Irregular income	2,022	0	0	520	5,200
Total regular income	123,397	54,016	105,952	156,943	238,204
Total income	125,419	56,563	106,888	160,346	238,204

Source: Household Economic Survey

Note: All dollar values are in June 2021 prices. Quantile values are for the distribution for each type of income.

Key categories are in bold. See Appendix Table 1 for definitions of incomes.

Comparing panel c with panel b, mean total income for pre-retirement households is about 50% higher than for retiree households. For pre-retirement households 85% of total regular income is labour income, investment and other benefits account for 6% each, while the remaining 3% comes from NZ Superannuation, workplace savings and other regular income.

Disaggregated by household type and further by age band within the retiree age group it is apparent that households switch from relying predominantly on labour income pre-retirement to relying less on labour income and more on NZ Superannuation and investment income upon reaching the NZ Superannuation eligibility age (comparing panel c with panel b in Appendix Table 2). This is especially true for single retirees aged 65-74 living alone, for whom NZ Superannuation accounts for over half of total income on average. In the later stage of retirement (aged 75+), NZ Superannuation plays an even more dominant role in providing for retirees, accounting for over half of total regular income for couple-only households and 70% for singles living alone.

Compared with pre-retirement households, mean income is 20% lower for households aged 65-74 and 40-50% lower for households aged 75+. These represent a substantial drop in income and potentially require decumulation of savings to supplement consumption.

The large gaps between mean and median incomes indicate high inequality in the distribution of income among retiree households. Both the Lorenz curves (Appendix Figure 1, panel b) and the Gini coefficients (Table 9) show substantial inequality in income, albeit not as large as in net worth. The lowest inequalities are seen in NZ Superannuation income (Gini coefficient of 0.17 in 2020/21) while the highest inequalities are in Investment income and Irregular income (Gini coefficient of 0.73 and 0.78 respectively). Between 2017/18 and 2020/21 inequalities fell for labour income, NZ Superannuation income and investment income but rose for income from workplace savings, other benefits, and other regular income.

5.4 Characteristics of asset-rich, income-poor retiree households

High inequalities in income described above suggest that low-income retiree households need substantial private transfers or wealth decumulation to meet their consumption needs. However, only high-wealth households are in a good position to run down their wealth. This section explores the characteristics of the target market for home equity release products, which consists of retiree households with low income and high home equity ('asset rich, income poor').

First, we define this target market as retiree households whose income is below the median income and home equity is above the median home equity. This group thus makes up approximately a quarter of retiree households. Second, we run a probit regression on the associations between household demographic characteristics and the probability of being asset rich, income poor. Comparing the four wealth-income groups (high home equity, low income; high home equity, high income; low home equity, high income; and low home equity, low income) Appendix Table 3 shows that they are very similar in terms of demographic characteristics.

Table 11 reports the marginal effects of household demographic characteristics on the probability of being asset rich, income poor. The table shows that in each year 2017/18 and 2020/21 just over a quarter of retiree households were in the asset-rich, income-poor group and only three household demographic characteristics can consistently significantly predict the probability that a retiree household is in that group. In particular, in 2020/21 households with Māori members are 15 percentage points less likely than other households to be asset rich, income poor. Similarly, households aged 65-74 are 7 percentage points and households with a working adult are 26 percentage points, less likely than other households to be asset rich, income poor. Other demographic characteristics such as geographic location, household type and

household education have weak or no significant effects on the probability that a retiree household is asset rich, income poor.

Table 11: Marginal effects on the probability of being asset-rich, income-poor for retiree households

	2017/18	2020/21
Mean dependent variable	0.261	0.269
Māori	-0.110*** (0.0384)	-0.147*** (0.0393)
Migrant	-0.0234 (0.0243)	-0.0356 (0.0254)
Aged 65-74	-0.0811*** (0.0226)	-0.0698*** (0.0248)
In employment	-0.225*** (0.0252)	-0.260*** (0.0268)
<i>Higher educational level (ref: no qualifications)</i>		
Some school	-0.0270 (0.0283)	0.0000 (0.0317)
Post-school	-0.0168 (0.0291)	-0.00537 (0.0330)
Bachelor's degree	-0.0670** (0.0334)	-0.0253 (0.0372)
<i>Household type (ref: Single-occupant)</i>		
Couple-only	0.0121 (0.0246)	0.00844 (0.0279)
Other household type	-0.102*** (0.0311)	-0.0583 (0.0356)
<i>Urbanisation (ref: Major urban)</i>		
Other urban	-0.0270 (0.0259)	-0.00222 (0.0294)
Rural	-0.0000 (0.0402)	-0.0217 (0.0413)
<i>Major region (ref: Auckland)</i>		
Wellington	-0.0168 (0.0375)	0.0252 (0.0412)
Rest of North Island	0.00906 (0.0337)	0.0517 (0.0347)
Canterbury	0.0221 (0.0347)	0.0974** (0.0406)
Rest of South Island	-0.00317 (0.0380)	0.0188 (0.0418)
Observations	1,608	1,272
Pseudo R-squared	0.121	0.140

Source: Estimated from the Household Economic Survey

Note: Dependent variable = 1 if household wealth is above median and household income is below median. Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

This section suggests that the target market for home equity release products is less likely to have Māori individuals, to be in employment or in the earlier stage of retirement (aged 65-74) but has no strong relationships with other household demographic characteristics. It is likely that other factors, such as life events, health care status and needs, and family circumstances, are more

important in determining whether a retiree household is likely to need home equity release products. However, data on these factors are not available in the HES.

5.5 Conclusion

Wealth and income are highly unequally distributed among retiree households. Compared to pre-retirement period, retiree households experience a large drop in income. Older retiree households tend to rely on NZ Superannuation as their main source of income, which is often not enough to maintain a comfortable lifestyle. Meanwhile, a substantial share of retirement wealth is in home equity. This suggests that retiree households can improve their standard of living by using home equity release schemes to draw down on home equity. Very few demographic characteristics can strongly predict whether a retiree household has high housing wealth but low income. Data on other factors such as life events, health care status and needs, and family circumstances, might be required to identify retiree households who might benefit from public policy or market products related to home equity release schemes.

6 Worked examples

6.1 Reverse mortgage worked examples

A major risk with a reverse mortgage is the possibility that it will completely erode the equity in the home. The combination of compounding interest and zero repayments means that borrowers who keep their reverse mortgage for a relatively long period of time risk losing all equity in their home. As discussed in section 3.4, this will have serious negative consequences if equity is required for future needs like moving into long-term care. Therefore, it is important to understand what factors influence how much equity will be remaining in the home and how equity erosion can be mitigated.

Due to the relatively complex nature of a reverse mortgage, there are many factors that can affect how much equity is remaining at the end of the loan. Some of these factors, such as the interest rate and property growth rate, are beyond the control of the borrower and can be difficult to predict in the long term. Other factors like the amount borrowed and loan duration are within the control of the borrower and can be chosen in a way that minimises the amount of interest that accrues.

We now present worked examples to demonstrate how these factors affect the remaining equity. The examples are based on a 75-year-old borrower who plans to repay the reverse mortgage in 15 years. The value of their home is \$610,000, the interest rate is 10.5%, and the property growth rate is 3%.¹⁹

6.1.1 Supplementing NZ Superannuation income

The 2023 Retiree Expenditure Guidelines highlight that NZ Superannuation is not enough to support the standard of living many retirees aspire to achieve (Matthews, 2023). Based on the average weekly expenditure of retiree households of differing income levels in the HES 2018/19, the guidelines estimate that approximately \$3,580 per month is needed to achieve a 'No Frills' lifestyle, and \$5,040 per month is needed to achieve a 'Choices' lifestyle that includes some luxuries and treats.²⁰ NZ Superannuation (after tax) provides approximately \$2,150 per month, which is \$1,430 short of the No Frills budget and \$2,890 short of the Choices budget.

This example demonstrates the consequences of using a reverse mortgage to supplement NZ Superannuation income via monthly drawdown payments. Three scenarios are presented: (i)

¹⁹\$610,000 is roughly the average amount of home equity available to the 'asset rich, cash poor' target group identified in section 5.4 (see also Appendix Table 3). 10.5% is the current interest rate charged by Heartland Bank. We use the property growth rate of 3% which is used by Heartland Bank in their online Reverse Mortgage calculator. 3% is a conservative parameter given that in the last 20 years house price inflation has averaged over 6% per annum (see Appendix Table 4).

²⁰ These values are for one-person households living in metro areas.

drawing down \$1,430 per month for 5 years; (ii) drawing down \$1,430 per month for 10 years; (iii) drawing down \$2,890 for 5 years. In scenarios (i) and (ii) the borrower is able to achieve the No Frills lifestyle for 5 and 10 years respectively (assuming they receive the aforementioned NZ Superannuation monthly income), whilst in scenario (iii) the borrower is able to achieve the Choices lifestyle for 5 years.²¹ We do not present a 10-year Choices lifestyle scenario because the total payments would exceed the maximum amount the borrower is allowed to draw down.

Figure 1: Effect of monthly drawdowns on equity

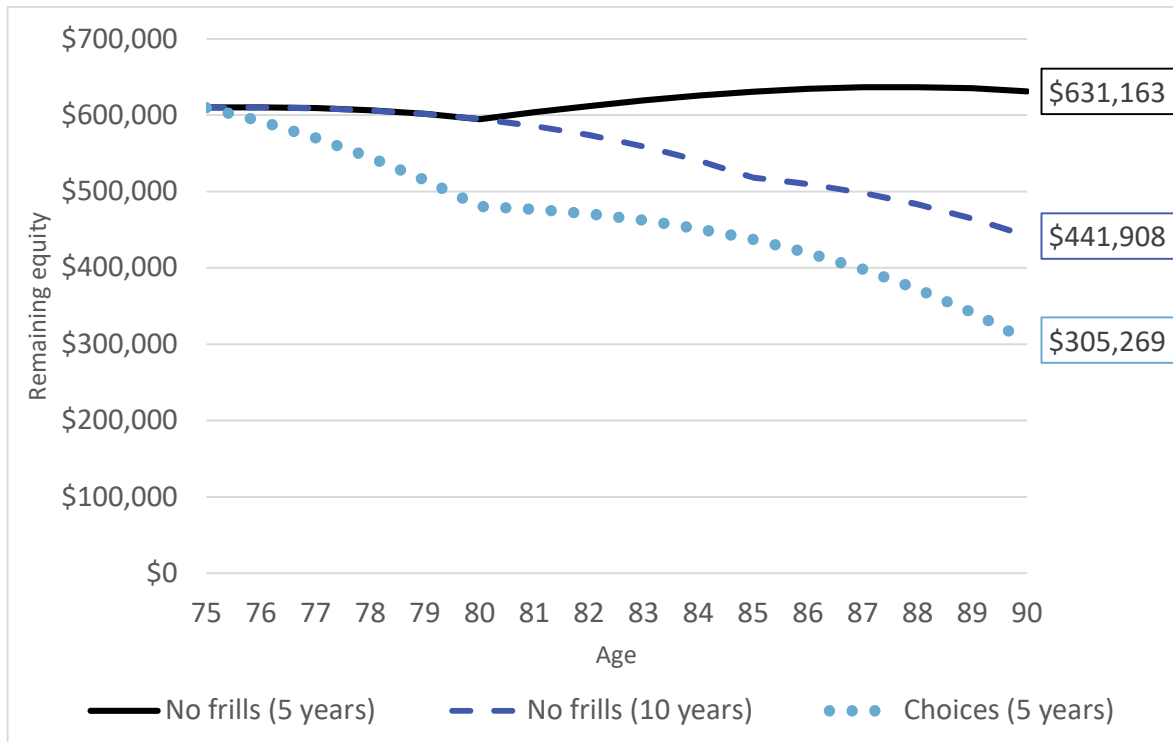


Figure 1 illustrates the effect of monthly drawdowns on equity under the three scenarios. Focusing on scenarios (i) and (ii), the figure shows that receiving monthly payments of \$1,430 for 5 years leaves the borrower with \$631,163 after 15 years. Receiving the payments for 10 years leaves them with \$441,908 after 15 years. This suggests that maintaining the new standard of living for longer comes at the cost of less remaining equity. Turning to scenario (iii), the figure shows that receiving \$2,890 per month for 5 years leaves the borrower with \$305,269 in equity, which is less than the remaining equity in the other two scenarios. This shows that achieving a higher standard of living through larger monthly payments comes at the cost of less remaining equity, even when the payments are received for a shorter period.

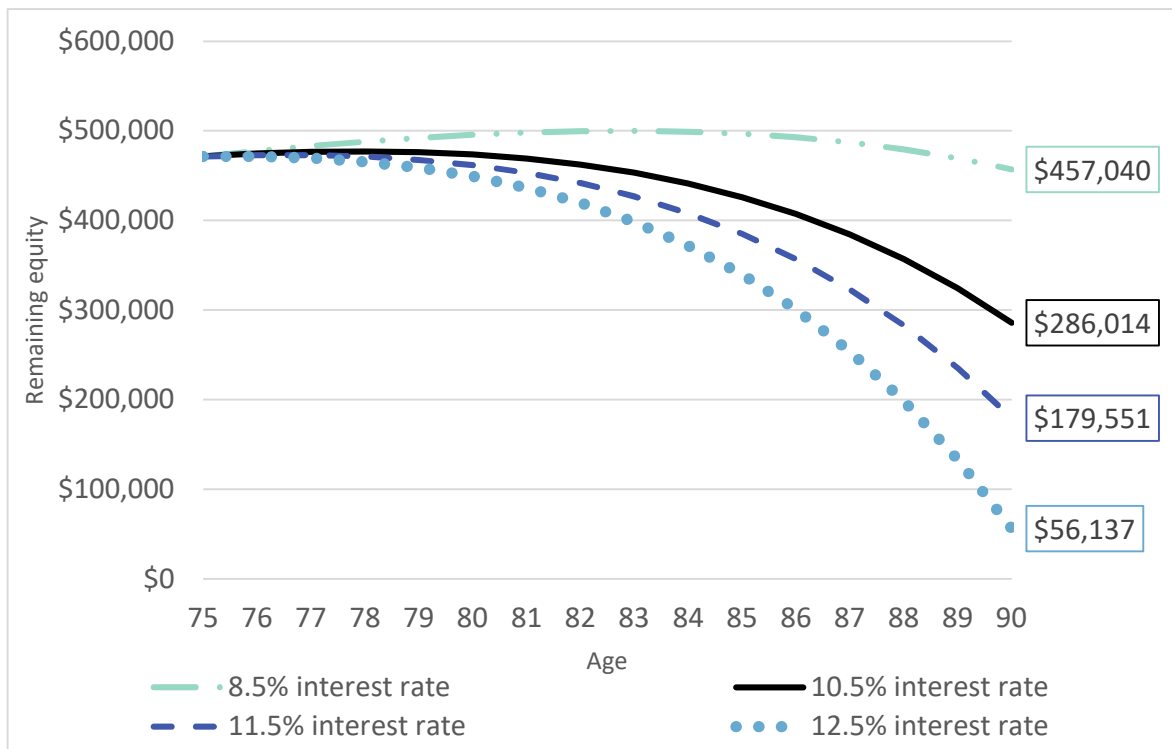
²¹ Heartland Bank only allow borrowers to receive monthly payments for 5 or 10 years. It is unclear if SBS Bank offer a monthly drawdown option.

6.1.2 Changes in the interest rate

In this example, and all that follow, the borrower chooses to take out a lump sum of \$138,470 as opposed to receiving monthly payments. This lump sum equals the amount the borrower could receive from taking out a home reversion plan (more on this in section 6.2). This amount is similar to the average reverse mortgage loan size at Heartland Bank as of December 2023 (Heartland Group, 2024).

Figure 2 illustrates the effect of the interest rate on remaining equity. A higher interest rate means more interest and consequently less equity. For example, if the interest rate increased from 10.5% to 11.5%, the borrower would owe \$106,463 more in interest after 15 years. If the rate was 12.5%, they would owe \$229,877 more. This shows that if the interest rate were to rise during the loan term, the equity in the home would decrease faster.

Figure 2: Effect of the interest rate on equity



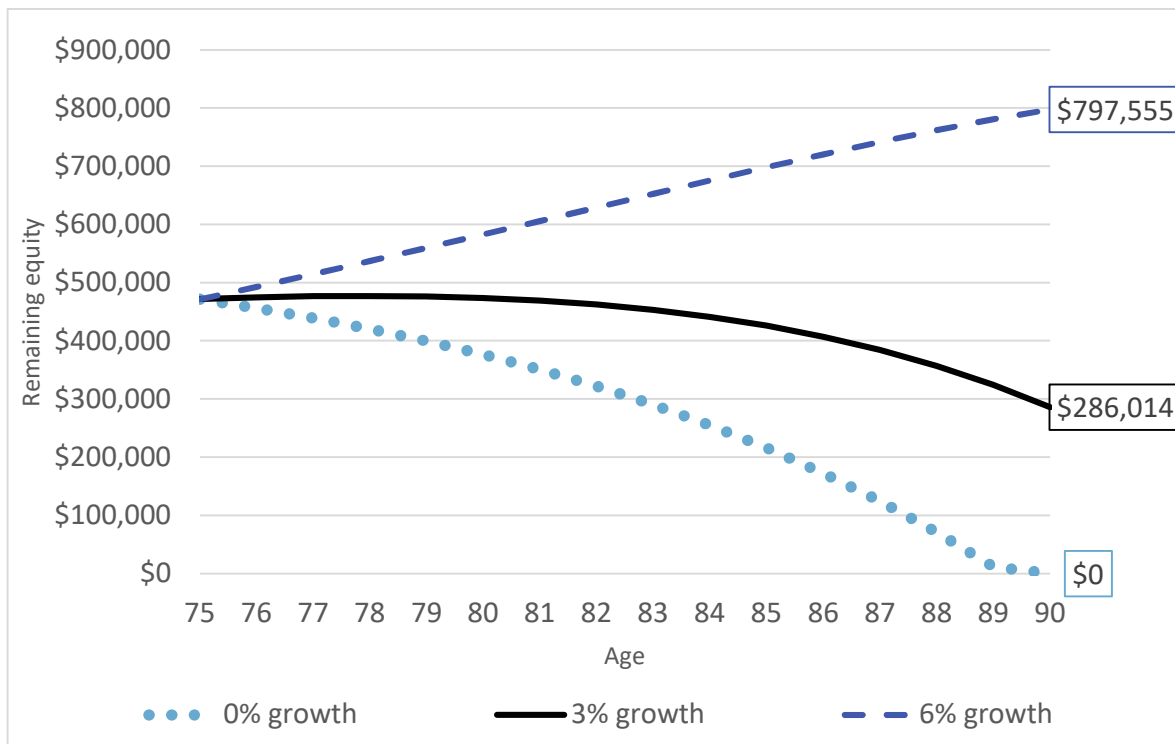
Current lending interest rates are high by historical standards.²² If the interest rate decreased from 10.5% to 8.5%, the borrower would owe \$171,026 less interest after 15 years. Hence, a falling interest rate benefits the homeowner because their interest costs will grow at a slower rate and there will be more equity remaining to them when they sell their home.

²² As shown in Appendix Table 4, the floating rate for first-mortgage new customers averaged 8.52% in the last year, compared to the 10-year average of 5.99% and 20-year average of 6.83%.

6.1.3 Changes in house price growth

For homeowners, rising house prices help offset interest costs and protect equity from eroding too quickly, whilst falling house prices contribute directly to equity erosion. Figure 3 demonstrates this by showing the path of equity when the house price growth rate is 6% (high growth), 3% (low growth), and 0% (no growth).²³ The interest rate in all three scenarios is 10.5%.

Figure 3: Effect of house price growth on equity



In the high-growth scenario, the home’s value grows faster than the interest owed,²⁴ hence equity rises to \$797,555 after 15 years. In the low-growth scenario, the interest owed starts to grow faster than the home value after about 5 years, thus after 15 years the equity falls to \$286,014. This is substantially less than the \$797,555 in the high-growth scenario. In the no-growth scenario, equity is always decreasing since the home value does not change and the interest owed rises each year. The remaining equity reaches zero after the 15 years, leaving the homeowner with no equity.

As with the interest rate example above, this demonstrates how fast the equity in the home can be eroded by external factors. Although zero or negative house price growth is unlikely to

²³ Even though the average headline house price inflation in last 20 years was 6.2% (Appendix Table 4), this rate is likely to overstate true house price growth, as the House Price Index is based on the median sale price, and the quality of the median house sold might have improved over time. Furthermore, retirees’ houses might experience lower price increase due to the lack of maintenance and repairs, and the need to sell quickly to move into aged care or when the owners pass away.

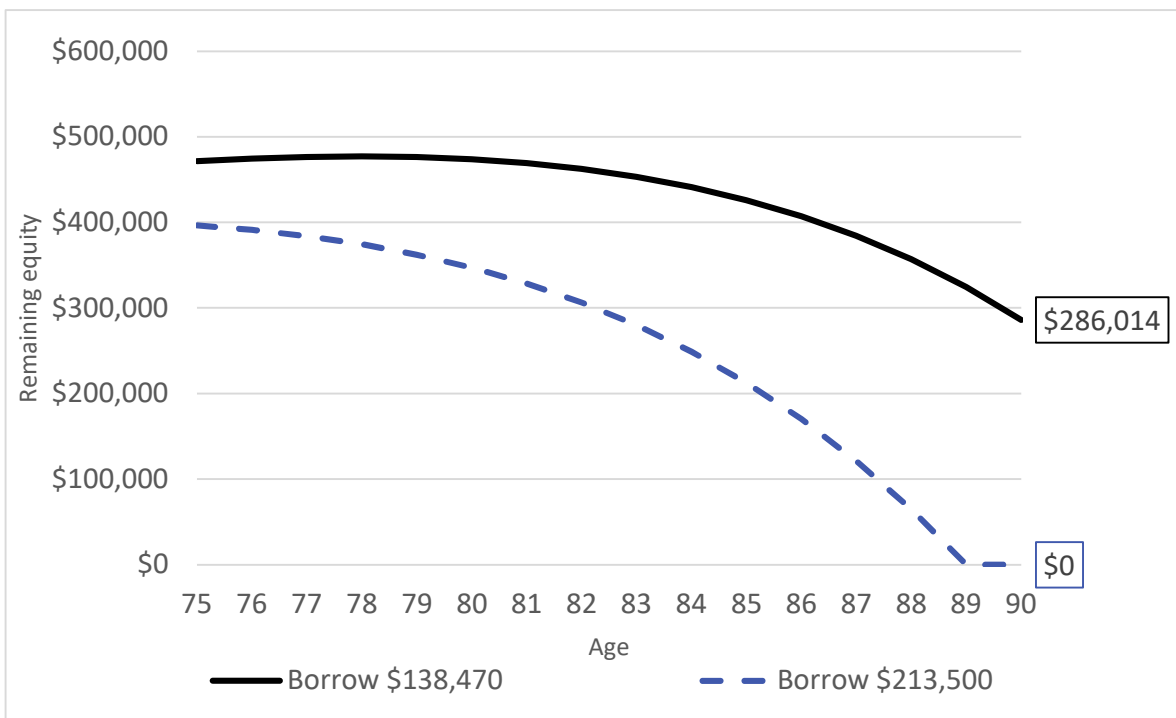
²⁴ Even though the house price inflation rate is lower than the mortgage interest rate, the debt share of the house is much smaller than the equity share of the house.

sustain over the long term, borrowers should be made aware of how such movements in house prices could affect their reverse mortgage loan and home equity over time.

6.1.4 Changes in the borrowing amount

Borrowers cannot control or influence the interest rate or house price growth rate, but they can control how much they borrow. Figure 4 shows that if the homeowner borrows the maximum amount possible of \$213,500 (given their age and initial home value), equity will fall to zero after 14 years. Although the borrower would get to enjoy about \$75,000 more today, this comes at a cost of \$286,014 in remaining equity after 15 years. This shows that the borrowing amount can have a substantial effect on home equity, suggesting that people should only borrow what they need, not what they can, to avoid paying excessive interest charges and risk losing all equity in their home.

Figure 4: Effect of the borrowing amount on equity

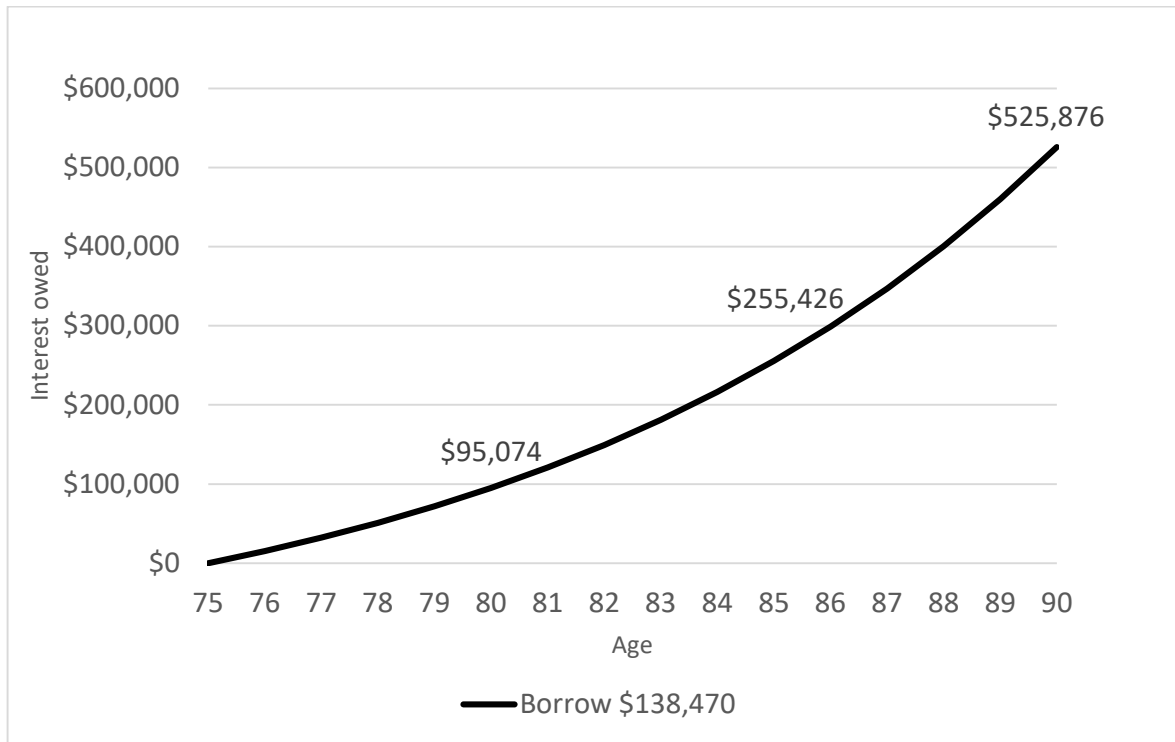


6.1.5 Loan duration

Due to the monthly compounding and lack of repayments, the interest owed on a reverse mortgage increases at a faster rate each year. This means the loan becomes costlier the longer it is not repaid. To show this, Figure 5 depicts the amount of interest owed for different loan durations. If the borrower repays the loan after 5 years, they will owe \$95,074 in interest. After 10 years, this amount more than doubles to \$255,426. After 15 years, the interest owed equals \$525,976, about 5.5 times more than the interest owed after 5 years. The significantly large difference in interest owed after 15 years compared to after 5 years suggests that reverse

mortgage borrowing is a relatively expensive form of long-term borrowing. Even though reverse mortgages are marketed as allowing retirees to age in place, there is an incentive to sell the home and repay the loan sooner rather than later to avoid excessively large interest costs. This may not be an issue if the borrower does not require any equity to be remaining to them when the home is sold.

Figure 5: Effect of loan duration on interest owed



6.1.6 Delayed drawdown

Reverse mortgage loans can be received as a lump sum today or set aside to be drawn down for future needs and unexpected expenditures. Figure 6 illustrates what happens if the lump sum of \$138,470 is drawn down in three stages: \$50,000 today, \$50,000 in 5 years, and the remaining \$38,470 in 10 years. Implementing this drawdown schedule increases the amount of equity remaining after 15 years from \$286,014 to \$503,357 since interest is only charged on what has been drawn down. This large equity saving suggests that borrowers should only draw down their reverse mortgage loan when they need the money and should avoid borrowing in advance in anticipation of future expenditures.

Figure 6: Effect of delayed drawdown on equity

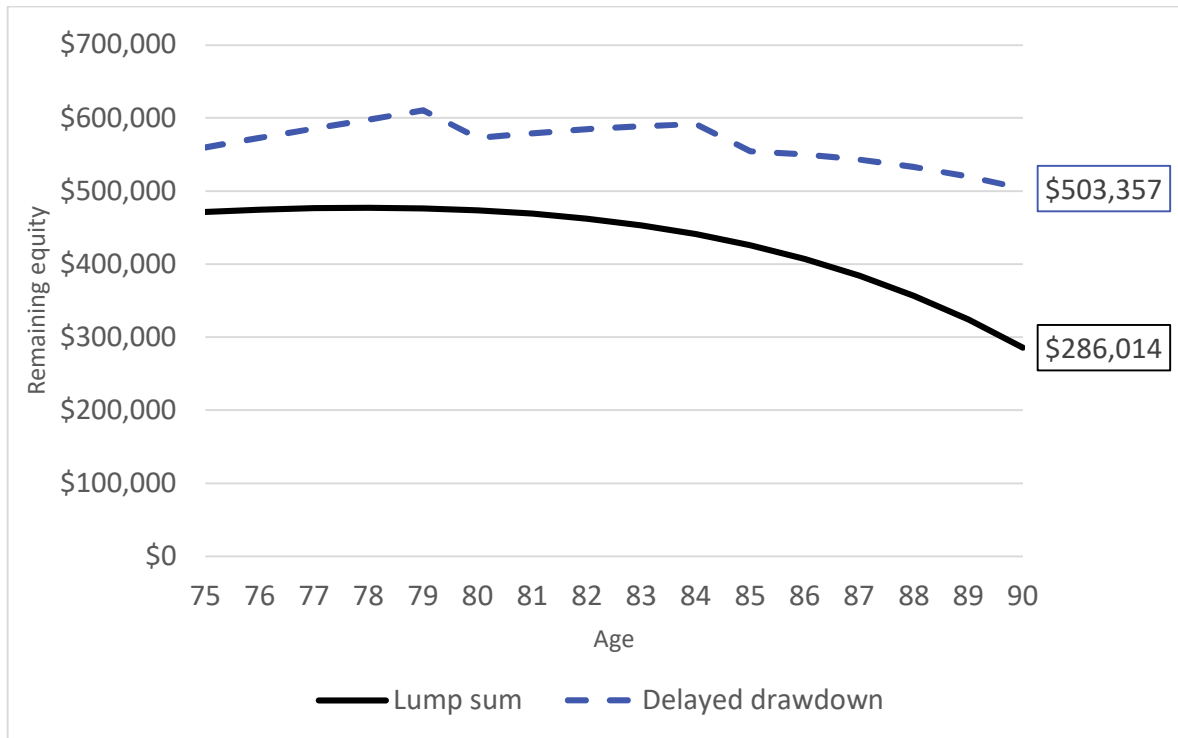
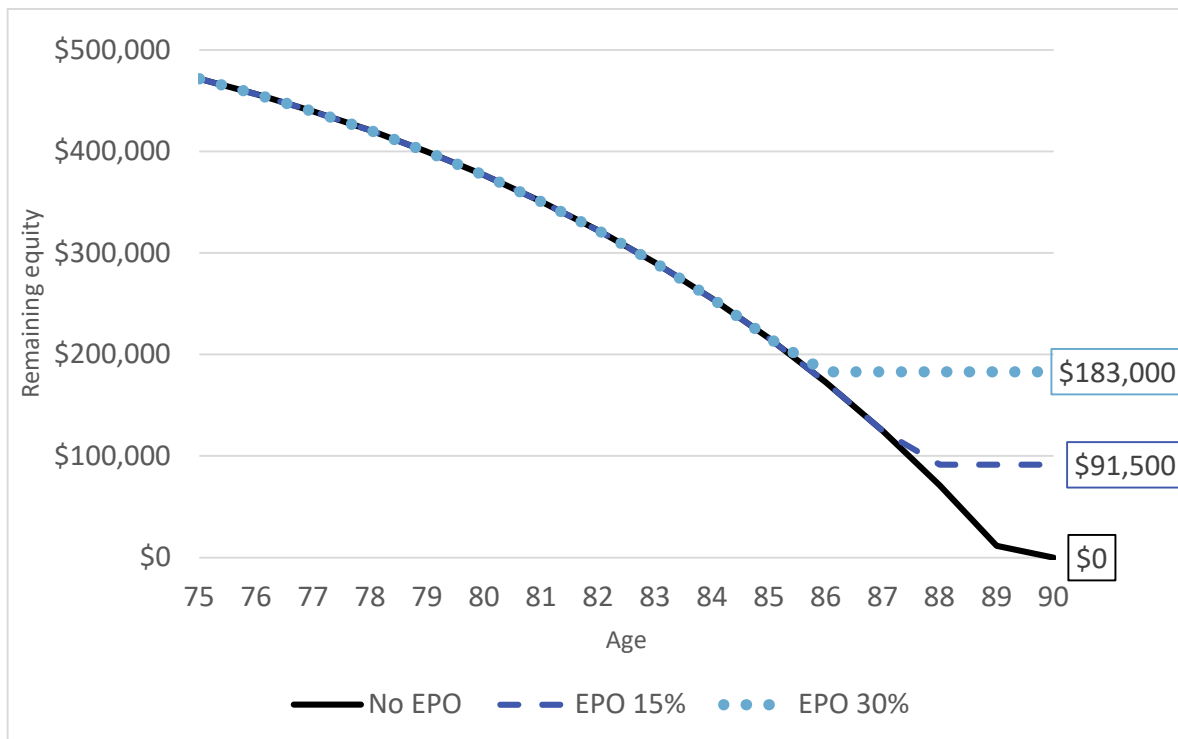


Figure 7: Effect of the equity protection option on equity



6.1.7 Equity protection option

Figure 7 illustrates how the EPO can protect the borrower from downside risk. In this example the house price growth rate is 0% (rather than 3%). The figure shows that if the borrower does not opt for the EPO, there will be no equity remaining to them after 15 years. If they choose an EPO

percentage of 30%, there will be \$183,000 of equity remaining to them, regardless of how much interest is owed. This shows that the EPO provides a way to hedge against the risk of reaching zero equity. The option may come at the cost of a smaller borrowing amount in some circumstances, since the EPO reduces the maximum amount that is allowed be borrowed.²⁵

6.2 Home reversion worked example

With a reverse mortgage, the interest owed grows each year and must eventually be paid back using the sale proceeds of the home. If the outstanding loan balance is sufficiently large, there may be nothing left for the homeowner. With Lifetime Home, there is no debt that needs to be paid back. Instead, Lifetime is entitled to a fixed proportion of the future sale proceeds of the home, and this proportion is known to the homeowner from the outset of the agreement.²⁶ Hence, the homeowner is guaranteed to have some equity remaining to them when their home is sold.

In the Lifetime Home setup, the main factors that affect how much equity will be remaining to the homeowner is the size of the interest sold to Lifetime, the house price growth rate, and the year the home is sold. To understand this, consider a 75-year-old homeowner who agrees to sell Lifetime a 35% interest in their \$610,000 home. The house price growth rate is assumed to be 3%. Gross income is calculated as 25% of the current value of the home, which equals \$152,500. After deducting ongoing annual fees the homeowner will receive \$13,847 per annum for 10 years, totalling \$138,470.²⁷

Figure 8 illustrates how the sale proceeds of the home would be split between the homeowner and Lifetime. For the first 10 years, the value of the homeowner's share will decrease by 3.5% while the value of Lifetime's share will increase by 3.5% each year. After 10 years has passed, Lifetime will own 35% of the home and the homeowner will own the remaining 65%. This ratio will not change, meaning both shares in the home will increase in value as the house price continues to increase (since a 3% growth rate has been assumed). If house prices were to fall, both shares would decrease in value whilst maintaining the same ratio. Hence, both homeowners and Lifetime benefit when house prices rise and lose out if house prices fall.

²⁵ Note that in this example an EPO of 30% or less still permits the borrower to borrow \$138,470.

²⁶ Note that the proportion will be different if the home is sold before 10 years has passed.

²⁷ This equates to roughly \$1,121 to \$1,230 per month over the 10 years, which is less than the \$1,430 needed for this homeowner to top up their NZ Superannuation income and achieve the 'No Frills' lifestyle defined by the 2023 Retiree Expenditure Guidelines.

Figure 8: Share in home sale proceeds after purchasing the Lifetime home reversion plan

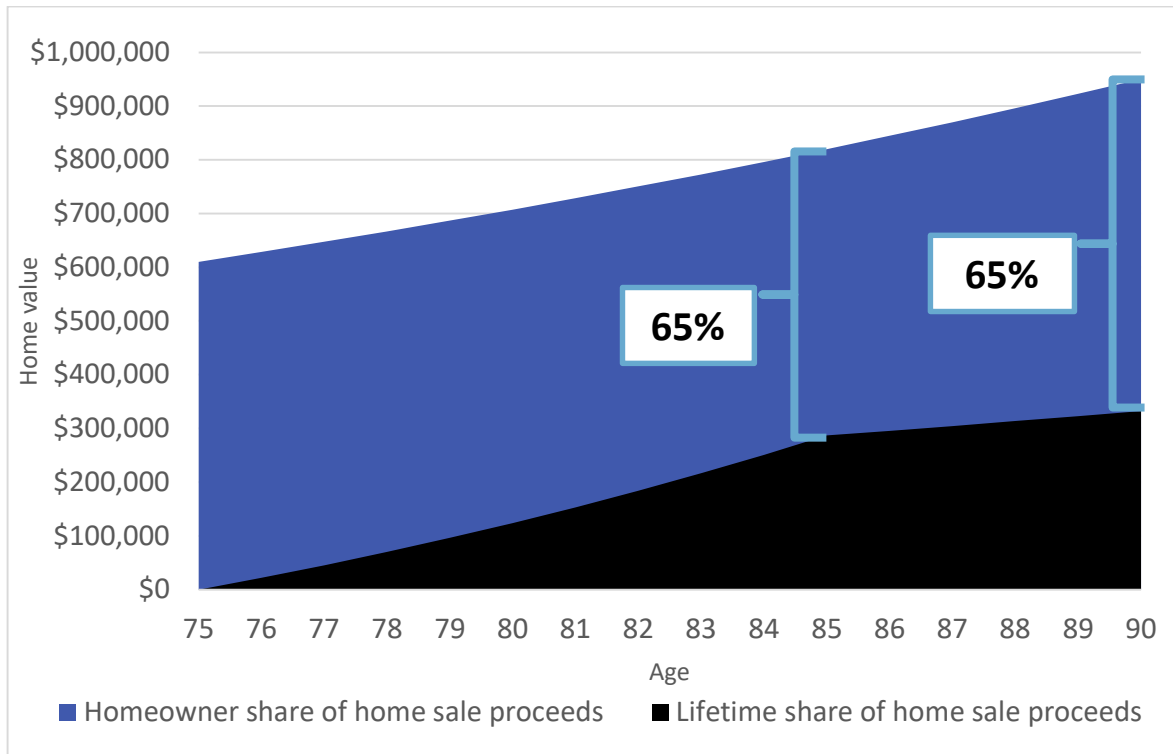


Figure 9: Reverse mortgage equivalent of the Lifetime home reversion plan

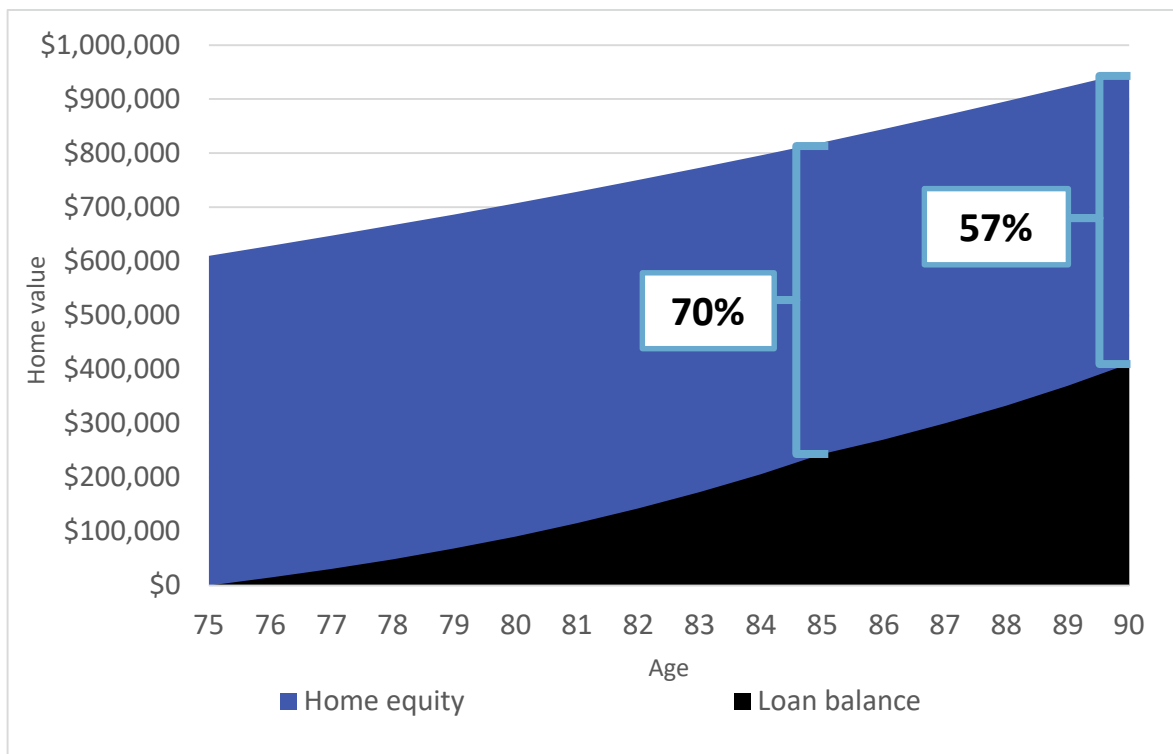


Figure 9 illustrates what would happen if the homeowner decided to take out \$138,470 as monthly drawdowns for 10 years using a reverse mortgage instead of purchasing Lifetime Home. After 10 years the reverse mortgage leaves the homeowner with access to a reasonably large amount of

the equity in the home, like with Lifetime Home. However, if the reverse mortgage is held onto for another 5 years, the impact of interest compounding results in an erosion of equity which would not occur under Lifetime Home. After 15 years, the homeowner would receive 57% of the home sale proceeds rather than 65%. This suggests that Lifetime Home may be more suitable for homeowners who plan to stay in their homes for a long time.

7 Discussion

Sections 4 and 6 indicate that high interest rates and slow house price growth are arguably the biggest risks associated with home equity release products. Regarding reverse mortgages, interest rates are about 2.5 percentage points higher than floating interest rates on traditional home loans, which in turn are typically higher than fixed rates. However, in situations where income falls short of consumption needs and loans are required to make up the shortfall, as far as interest rates are concerned reverse mortgages are more attractive than consumption-based lending, such as personal loans or credit cards, whose interest rates are typically twice as high. Home reversion plans like Lifetime Home may also be more attractive than consumption-based lending because it involves no debt that needs to be repaid.

Given the findings above, this section highlights scenarios where home equity release might be beneficial and those where it might not. It also briefly discusses alternatives to home equity release and concludes with policy implications.

7.1 Scenarios where home equity release might be beneficial

First, equity release can be beneficial for retirees who have low retirement income and very limited options to access liquid wealth but hold substantial equity in their owner-occupied houses, as identified in section 5.4. Equity release can allow such ‘asset-rich, income-poor’ retirees to increase their consumption beyond what their low savings and NZ Superannuation could afford.

Second, home equity release schemes might benefit borrowers when there is strong house price growth. In the case of a reverse mortgage, strong house price growth can offset the increase in the loan balance. Data show that in the last 20 years house price inflation has averaged over 6% per annum (see Appendix Table 4). This means that a 10.5% interest rate is effectively only 4.5% to the borrower. In the case of home reversion, since the home reversion plan guarantees a fixed percentage of the future home sale proceeds, the greater the home value (due to strong house price growth) the more equity the homeowner receives at the end. Although there is still a cost to having a home equity release scheme, strong house price growth will mean there is more equity remaining to the homeowner when the home is sold, thus making such products more financially viable.

Third, home equity release schemes can be beneficial by protecting retirees against longevity risk (the risk that the retiree lives for longer than expected and runs out of savings to supplement their retirement income). Indeed, reverse mortgages can be used as a line of credit that can be drawn down at regular intervals or in emergencies. Since interest only accrues on amounts that have been drawn down, borrowers can keep funds aside for as long as they need.

Home reversion guarantees income for a set period, reducing the risk of running out of savings before moving out of the home.

Fourth, home equity release schemes provide retirees access to liquid wealth without having to give up the home. Research indicates that many retirees have a strong psychological attachment to their homes. Some retirees may have a strong preference to age in place, and thus are unwilling to downsize/move home. Since equity release products guarantee lifetime occupancy, retirees are allowed to stay in their home for as long as they want and cannot be forced to sell the home. Thus, equity release could be a good option for retirees who want to access the equity in their home without having to sell the home.

With a reverse mortgage, the homeowner knows how much the borrowing is costing them in dollar terms. Home reversion, on the other hand, shows how much financing is costing the homeowner in terms of the share of their equity. The question of reverse mortgaging vs. home reversion to a homeowner is similar to the question of debt financing vs. equity financing faced by a company. A reverse mortgage is a better alternative than home reversion when the equity in the house is expected to grow faster than the interest owed. Home reversion might be more suitable when low house price growth is expected over the course of the financing period, when the homeowner prefers to have no debt burden, or when the homeowner plans to stay in their home for a long time.

7.2 Scenarios where home equity release might not be beneficial

Home equity release might not be beneficial as reduced equity might limit the borrower's options in the future. With a reverse mortgage, the potential for large debt means that there may be little to no equity left for the borrower when the home is sold. This will put them in a poor financial position and limit their ability to buy another home, move into a retirement village, pay for rising healthcare costs, or leave a bequest. A similar situation can occur with home reversion. Even though the homeowner is guaranteed some of the sale proceeds of their home, this amount may not be enough for their future needs, especially if house prices have fallen (or experienced slow growth).

Low or negative house price growth represents another scenario where home equity release might not be beneficial to borrowers. If house prices fall, the equity in the home could be completely eroded within a short period with a reverse mortgage, especially for those who use the scheme to take out a large lump sum. Negative house price growth can also greatly reduce the remaining equity with a home reversion plan. As explained above, this could be a major issue if the homeowner needs equity for future needs or a sudden change in circumstances.

Lastly, when there are people other than those who are nominated on the contract living in the home, home equity release might not be a good solution. This is because the home must be sold when the owner passes away or moves (or their surviving, nominated partner passes away), leaving non-nominated residents no option but to move out.

7.3 Alternatives to home equity release

The previous section implies that home equity release schemes are not for everyone. Depending on the retiree's circumstances, home equity release schemes can either be a suitable form of retirement income or a costly burden on financial freedom. The latter partly explains why consumer advisors are hesitant to recommend home equity release schemes and encourage people to consider alternative options first.

The main alternative to a reverse mortgage or home reversion plan is downsizing, since it similarly releases equity from the home. Alongside providing access to cash to supplement retirement income, the benefits of downsizing include no debt repayments and potential cost savings from reduced maintenance costs and household operations costs (such as rates, electricity and water). Furthermore, some of the released equity can be put aside to grow within a savings account or investment fund. The major drawback of downsizing is having to move home. Downsizing costs can be significant and include valuation costs, real estate and legal fees, moving costs and more. The mental wellbeing costs of moving home may also be significant, especially if the retiree would prefer to age in place. Another drawback of downsizing is that there is currently a lack of appropriate properties for downsizing in the New Zealand housing market (James, 2020). Thus, retirees may find it difficult to move to a property that would enable them to release a significant amount of equity in their current home.

Rather than moving into a new home, retirees could instead move into a retirement village. Like with downsizing, this would provide cash that can be spent or saved for future needs, avoid getting into debt, and reduce the amount of home maintenance. Retirement villages also have the added benefits of care facilities and a sense of community with other residents. However, moving into a retirement village means having to move home and some villages may require the retiree to pay regular service fees. Furthermore, the majority of retirement villages in New Zealand operate on a Licence to Occupy model. Under this model, residents do not generally receive any capital gains from their units but have to pay a deferred management fee of 20-30% which will erode the capital they initially pay to obtain the Licence to Occupy.

If the retiree would prefer to stay in the home, one option is to rent out some rooms. Although this might involve an upfront cost such as home alteration or furnishing, it would provide

ongoing rental income that can help to supplement retirement income. The main downside is that the retiree must give up part of their home and being a landlord may be cumbersome. Furthermore, renting out does not provide large lump sums of cash like a reverse mortgage, so would be unsuitable for a retiree who is looking to make a big expenditure.

If the retiree needs access to lump sum cash rather than a stream of income, one option is to take out a personal loan. Personal loans are similar to home equity release schemes in that they provide access to liquid cash without requiring the retiree to move out of their home. They also provide funds in a relatively short amount of time and might not require collateral. The key difference is that personal loans involve interest repayments, which may be unsuitable for income-poor retirees. Furthermore, fees and penalties can be large, and the interest rates on personal loans are very high. Another difference is that the maximum amount that can be borrowed is a lot smaller for personal loans compared to reverse mortgages. Hence, retirees seeking to make a relatively large expenditure may not be able to fund it with a personal loan.

7.4 Policy implications

Given that almost 30% of New Zealand households have a retiree, many having little income and wealth other than their owner-occupied homes, the demand for home equity release is potentially strong. However, home equity release products in New Zealand are limited, costs and benefits are not well understood, and negative perceptions towards these products are widespread. Hence, both the government and the industry have roles to play to improve the market.

First, the government could provide resources and tools to help consumers understand the benefits and costs of equity release products, which would make them better informed and may dispel negative perceptions. For example, the government could provide resources and tools that allow consumers to develop a long-term understanding of their possible future financial needs and estimate the effect that a proposed equity release product may have on their ability to afford such long-term needs (ASIC, 2018). Better information can allow consumers to understand whether alternative solutions such as downsizing and receiving family support may be preferable instead. Information can be promoted via an existing channel specialising in retirement planning, such as the sorted.org.nz website.

The government could also encourage more providers to enter the market. It is noted that in Australia the home equity release market is highly concentrated with high barriers to entry, such as capital adequacy regulations, wholesale funding, and low revenues in times of low interest rates (ASIC, 2018). The New Zealand market is even smaller, even after adjusting for population

size.²⁸ As a result, consumers are faced with limited options, higher prices, and reduced negotiating power. Effective competition would drive innovation in product offerings, improvements in product quality and variety, greater efficiency, and lower prices for the benefit of consumers. Furthermore, the government can also help by promoting the use of the 2008 code of standards and continuously updating them to reflect market conditions and innovations.

Meanwhile, financial providers have a role to play by facilitating long-term planning with the consumer. Reverse-mortgage borrowers face the risk that accrued interest charges reduce their capacity to afford important future expenses, such as aged care and medical treatment. Poor awareness of this risk can lead borrowers to take out a larger-than-necessary reverse mortgage and not consider their future needs. For example, all five lenders in Australia focus primarily on the borrower's short-term objectives, paying limited or no attention to the borrower's possible future needs. ASIC (2018) recommends that lenders document more detailed inquiries about consumers' future needs and objectives, including (but not limited) to their needs and objectives for aged care and inheritance.

Financial providers should also provide clear explanations of the product to address negative perceptions of home equity release. Besides, financial providers should adopt systems to identify and reduce the risk of financial elder abuse,²⁹ as the risk of such abuse deters retirees and their families from taking up relatively 'unconventional' products like home equity release.

²⁸ Similar to the Australian market, capital adequacy regulations are also a significant barrier to entry, see, for example Reserve Bank of New Zealand (2022).

²⁹ Financial elder abuse occurs when one person illegally or improperly exploits or uses the money or resources of an older consumer.

8 Conclusion

High average life expectancy, insufficient retirement income, and rising household living costs are amongst the many reasons why some retirees are finding it difficult to fund their retirement. For those who own a home but have low retirement income, home equity release schemes may be the solution to achieving a better standard of living. They have the potential to improve welfare by allowing retirees to increase their consumption without having to sell their home. Although home equity release products can involve significant financial and opportunity costs, the benefits of accessing cash today and being able to age in place may provide significant value to some retirees.

Home equity release schemes are complex products with multiple consumer-appealing features. The lack of debt repayments would be beneficial for retirees who are strapped for cash. The lifetime occupancy guarantee provides the assurance that the retiree cannot be forced out of their home. The flexible drawdown options with a reverse mortgage allow retirees to access equity for a range of purposes, such as a big one-off expenditure or emergencies. With Lifetime Home, the guaranteed income helps to supplement NZ Superannuation and the design of the plan means that the retiree is not punished for selling their home before receiving all of the income payments.

The major warning about home equity release products is that they are costly financial products. Indeed, the loan balance on a reverse mortgage can grow to a relatively large amount within a short period of time due to the compounding effect of interest and lack of repayments. Home reversion plans can also be costly if the share of the home is sold to the provider at a large discount. Moreover, the opportunity cost of foregone capital appreciation may be significant if house price growth is large.

Given the large potential cost of home equity release, it is crucial that potential purchasers are made aware of how such products can affect their financial position in the future. The worked examples suggest that the biggest risks associated with home equity release products are high interest rates and slow house price growth. Both factors erode the equity in the home and may leave the homeowner with little money when the home is sold. The government and financial industry have a role to play in helping consumers understand these risks and develop a long-term understanding of their possible future financial needs.

Do home equity release schemes provide value for money? In short, it depends on the retiree and their circumstances. If current savings and income is not enough to sustain a comfortable standard of living, and the preference is to remain in the home forever, then home equity release may be a suitable form of retirement income. If finance is needed for significant expenditures in the future, such as long-term care or healthcare costs, then home equity release

may not be suitable. From an economics perspective, home equity release schemes represent a trade-off between current and future consumption. Accessing home equity today comes at the cost of reduced home equity in the future when the home is sold. If the economic and wellbeing benefits derived from higher current consumption exceeds the cost of foregone future consumption, then home equity release schemes may indeed provide value for money despite s financial costs.

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Appendix

A1. The Household Economic Survey

HES is a major survey conducted by Statistics New Zealand to collect information on household income, savings, and expenditure, as well as demographic information on individuals and households. Since its inception in 1973, the HES has undergone several redevelopments, most importantly in 2006/07 and 2018/19. Currently the HES has three components: HES Income, HES Expenditure, and HES Net Worth (aka. HES Savings). Each survey is usually run from July to June.

HES Income is the core module and is run every year. It collects income from each individual aged 15 or over (hereafter 'adults', for short), allowing for income to be disaggregated by source. HES Net Worth asks adult respondents to report the values of their household assets³⁰ and liabilities, which enables us to calculate assets, liabilities, and equity for different classes of assets. There have been three HES Net Worth surveys, carried out every three years: 2014/15, 2017/18 and 2020/21. Our analysis focuses on HES Net Worth 2020/21 as it contains the latest data available. However, since the field work of the survey as well as the data collected by HES 2020/21 were significantly affected by the Covid-19 pandemic, we also draw on HES 2017/18 to give an indication what the patterns would look like in a 'normal' year.

The target population for the HES is the usually resident population living in private dwellings, aged 15 years and over. HES 2014/15 and 2017/18 had a responding sample of around 5,500 households for both Income and Net Worth modules. HES Net Worth 2020/21 had a reduced sample of 4,400 households, as COVID-19 restrictions prevented face-to-face interviews in some months. Even though the sample size for HES Income 2020/21 was higher (16,200 households),³¹ we use the Net Worth sample as it is the common sample for which data on both income and net worth are available.

³⁰ Rateable values are used for property assets whereas market values are used for business and trust assets (Statistics New Zealand, 2022).

³¹ In order to get better representation of households with low income or high material deprivation, since the 2018/19 redevelopment, the sample size for HES Income has been boosted (from 3,700 in 2016/17 to over 21,000 households in 2018/19 and over 16,000 in 2019/20). Thus, from that year HES Income has a much larger sample size than HES Expenditure or HES Net Worth carried out in the same year.

A2. Appendix tables and figures

Appendix Table 1: Definition of income, asset and liability categories

	Type of income, asset or liability	Definition
	Income	
1	Labour income	Wages, salaries, extra payments from paid employment, profit or loss from self-employment
2	NZ Superannuation income	Payments from New Zealand Superannuation, Veterans Pension, War Disablement Pension, Surviving Spouse Pension
3	Workplace savings income	Income from job-related savings schemes, including KiwiSaver, National Provident Fund, Government Superannuation Fund and overseas job-related schemes
4	Investment income	Income from trusts, interests, dividends, rents, bonds, debentures or securities, managed funds, Māori land, royalties, partnership as non-working shareholder or proprietor, unit trusts, annuities, mutual funds, overseas investments, etc
5	Other benefits income	NZ benefits other than (2): Accommodation Supplement, benefits paid by Work and Income, core taxable benefits (Job Seeker Support, Supported Living Payment, Sole Parent Support, Youth Payment, Young Parent Payment, Emergency Benefit, Emergency Maintenance Benefit), Orphans and Unsupported Child's benefits, Disability Allowance, Child Disability Allowance, Student Allowance, Temporary Additional Support
6	Other income	Earning compensation, Paid Parental Leave, family tax credit paid by Work and Income, maintenance/child support/ alimony, payment from income protection insurance scheme, educational scholarships, payments from ACC or private work insurer as a dependant, overseas pension, overseas social security benefits, gifts of money from overseas, overseas scholarships, other overseas income
7	Irregular income	Working for Families paid by Inland Revenue, tax credits, income from trusts of unknown regularity, inheritances, matrimonial settlements, lump-sum maintenance or child support payments, lump-sum payments from life insurance policies, gifts of money from other NZ households, other irregular payments from Inland Revenue
8	Regular income	Total value of (1) to (6)
9	Total income	Total value of (8) and (7)
	Asset and liability	
10	Home asset	Capital value (as determined by local government for ratings purposes) of owner-occupied (primary or secondary) houses. Value is pro-rated when ownership is joint.
11	Investment property asset	Capital value (as determined by local government for ratings purposes) of holiday homes, timeshares, residential rental real estate, other non-investment residential real estate, non-residential real estate, and land only. Value is pro-rated when ownership is joint.
12	Non-financial asset	Vehicles, other consumer durables, valuables, intellectual property, other non-financial assets
13	Financial asset	Currency, deposits, bonds and other debt securities, shares in listed corporations, other equity not held in family trust, mutual funds and other investment funds, life insurance funds, annuities, social insurance pension funds, KiwiSaver pension funds, non-KiwiSaver pension funds, loans made to trusts, loans made to

	Type of income, asset or liability	Definition
		other households, loans made to other entities, other household financial assets
14	Equity in farms and businesses	Market value of property equity and non-property equity in own unincorporated enterprises, shares in unlisted corporations
15	Equity in trust	Market value of financial and non-financial equity held in a family trust
16	Home loan	Amount still owing on the mortgages for assets in (10). Value is pro-rated when ownership is joint.
17	Investment property loan	Amount still owing on the mortgages for assets in (11). Value is pro-rated when ownership is joint.
18	Other loan	Loans for assets in (12) and (13)
19	Home equity	(10) less (16)
20	Total assets	Total value of (10) to (15)
21	Total liabilities	Total value of (16) to (18)
22	Total net worth	(20) less (21)

Note: Based on data from the Household Economic Survey 2020/21

Appendix Table 2: Summary statistics on income, by age group and household composition

	Couple-only households			Single-occupant households		
	Mean	Lower quartile	Median	Mean	Lower quartile	Median
<i>a) Aged 75+</i>						
Labour income	9,115	0	0	959	0	0
NZ Superannuation income	36,626	38,195	38,479	23,742	25,181	25,365
Workplace savings income	2,511	0	0	807	0	0
Investment income	16,465	50	4,372	6,418	0	312
Other benefits income	1,774	1,400	1,400	1,735	900	900
Other income	900	0	0	219	0	0
Irregular income	440	0	0	322	0	0
Total regular income	67,393	42,042	50,585	33,882	26,983	28,733
Total income	67,832	42,042	50,585	34,204	26,983	28,733
<i>b) Aged 65-74</i>						
Labour income	49,288	0	26,845	12,562	0	0
NZ Superannuation income	29,151	19,358	36,181	22,412	23,326	25,304
Workplace savings income	3,619	0	0	1,304	0	0
Investment income	15,948	0	625	5,077	0	0
Other benefits income	1,814	1,327	1,400	2,193	900	900
Other income	1,038	0	0	464	0	0
Irregular income	1,552	0	0	875	0	0
Total regular income	100,859	47,939	75,828	44,011	26,431	30,843
Total income	102,411	49,030	77,586	44,886	26,444	31,204
<i>c) Pre-retirement households</i>						
Labour income	114,652	64,948	101,801	40,442	0	26,404
NZ Superannuation income	338	0	0	166	0	0
Workplace savings income	356	0	0	295	0	0
Investment income	10,716	0	12	4,919	0	0
Other benefits income	2,292	0	0	5,731	0	0
Other income	2,480	0	0	2,543	0	0
Irregular income	1,572	0	0	1,056	0	0
Total regular income	130,834	70,658	110,904	54,096	22,138	41,712
Total income	132,405	71,779	113,740	55,152	22,138	41,712

Source: Household Economic Survey 2020/21

Appendix Table 3: Characteristics of wealth-income groups

Group label	High home equity, low income	High home equity, high income	Low home equity, high income	Low home equity, low income
	A	B	C	D
Any Māori [#]	0.069	0.109	0.182	0.188
Any migrant [#]	0.326	0.398	0.490	0.398
In employment [#]	0.139	0.633	0.790	0.172
Has dependent children	S	0.031	0.105	0.078
<i>Age group (of oldest person)</i>				
75+	0.569	0.328	0.364	0.508
65-74	0.431	0.680	0.643	0.484
<i>Education (highest of anyone)</i>				
No qualification	0.299	0.078	0.119	0.344
School only or Level 1-3 cert.	0.299	0.250	0.259	0.250
Level 4-6 certificate	0.236	0.320	0.287	0.258
Degree	0.160	0.359	0.336	0.133
<i>Household composition</i>				
Couple only	0.403	0.578	0.371	0.344
Single living alone	0.493	0.203	0.168	0.477
All other	0.097	0.219	0.455	0.180
<i>Housing tenure</i>				
Owned outright	0.924	0.812	0.423	0.417
Owned with a mortgage	0.083	0.195	0.232	0.079
Paying rent	S	S	0.317	0.417
Rent free	S	S	0.028	0.071
<i>Region</i>				
Auckland	0.229	0.297	0.364	0.258
Wellington	0.097	0.148	0.105	0.062
Rest of North Island	0.382	0.328	0.315	0.461
Canterbury	0.146	0.133	0.091	0.078
Rest of South Island	0.139	0.109	0.140	0.156
<i>Urbanisation</i>				
Major urban	0.410	0.461	0.497	0.367
Other urban	0.458	0.352	0.329	0.453
Rural	0.132	0.195	0.168	0.180
<i>Mean</i>				
Household size	1.65	2.07	2.64	1.83
Total income	38,710	111,119	139,887	39,758
Equivalentised total income	29,146	73,119	79,499	28,230
Regular income	37,728	109,804	137,778	38,518
Equivalentised regular income	28,462	72,309	78,459	27,402
Total net worth	949,754	1,702,921	1,409,659	460,701
Equivalentised net worth	727,777	1,183,134	908,885	318,806
Home asset	620,990	825,915	104,829	46,198
Home equity	611,582	795,870	44,029	32,137
Number of households	342	291	315	324

Source: Household Economic Survey

Note: For the purpose of grouping, 'high' (equity or income) means at or above the median, 'low' means below the median. All dollar values are in June 2021 prices. [#]Category = 1 if anyone in the household has the characteristic. S: Suppressed to protect confidentiality.

Appendix Table 4: Average house price inflation and floating mortgage rates in New Zealand in the last 1-30 years

Period to March 2024	Average annual growth rate in the House Price Index (%) ^a	Average floating mortgage rate (%) ^b
From April 2023	2.51	8.52
From April 2021	0.86	6.68
From April 2019	6.54	5.96
From April 2014	7.17	5.99
From April 2004	6.20	6.83
From April 1999	6.60	6.98
From April 1994	6.81	7.45

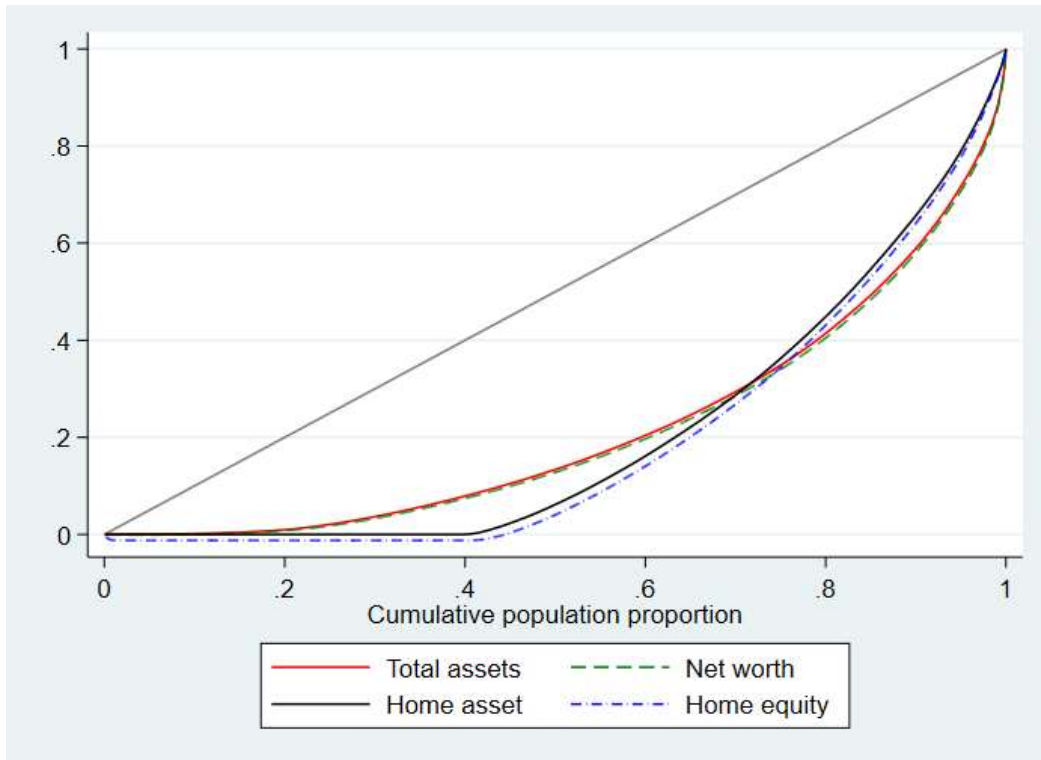
Source: Reserve Bank of New Zealand

Note: ^aCalculated from House Price Index (HM10 data)

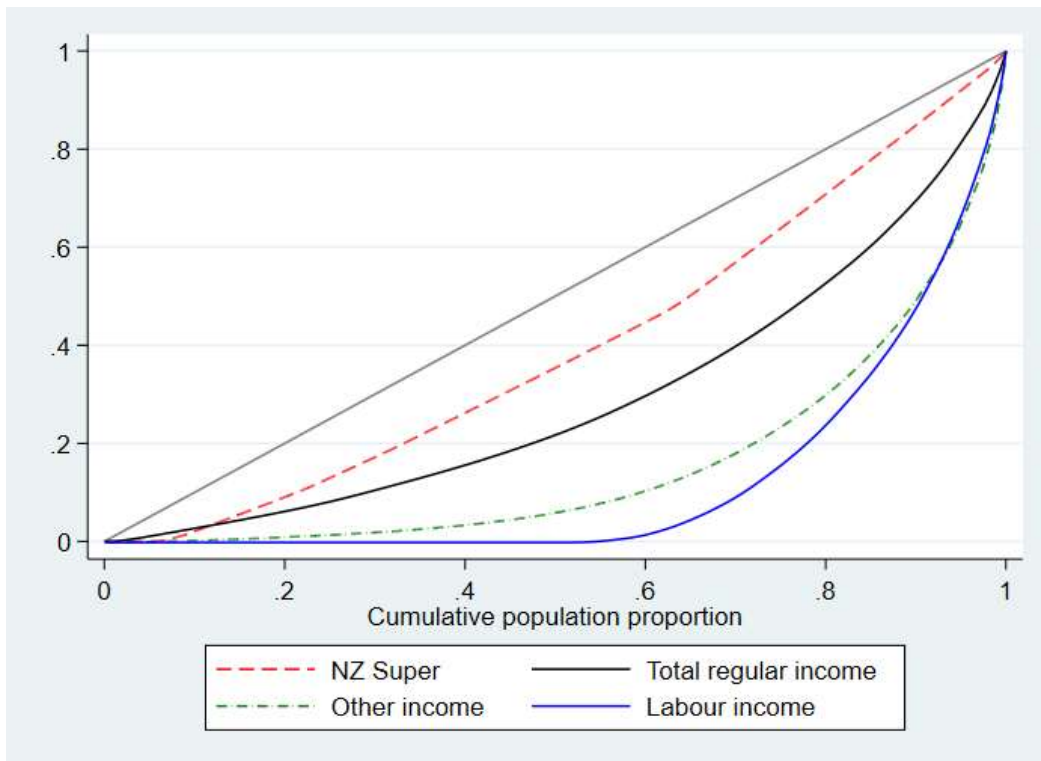
^bCalculated from monthly values of 'B1 Floating first mortgage new customer housing rate' (HB3 data)

Appendix Figure 1: Lorenz curves of wealth and income for retiree households

a) Wealth



b) Income



Source: Household Economic Survey 2020/21

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