

Attitudes to reverse mortgages in Wielkopolska

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Abstract. A study was made of the opinions and attitudes of household representatives towards reverse mortgages (RMs). The authors attempt to identify the perceived significance of property ownership for quality of life during retirement, respondents' attitudes towards various actions that may be taken if pension income is insufficient, their knowledge about the product, and their willingness to use it. Additionally, the authors examine the relevance of factors which might encourage a consumer to take out an RM. Findings are based on a survey conducted in 2015 among 443 adults living in the region of Wielkopolska. It is found that people in Wielkopolska are strongly attached to the property that they own, and regard it as a very important factor affecting their quality of life during retirement. At the same time, the findings point to a very low level of knowledge about RMs and a negligible amount of interest in this product. The primary factor which might encourage people to take out an RM is serious illness and the need for a large amount of money to obtain medical care.

Keywords: pension system, reverse mortgage, household behaviour, questionnaire survey.
JEL Codes: D14, D64.

1. Introduction

One of the factors causing deterioration of the condition of the Polish pension system is the constantly growing life expectancy of Polish citizens, especially since 1990 – between 1990 and 2015 it increased from 75.2 to 81.6 for women and from 66.2 to 73.6 for men [Central Statistical Office of Poland, n.d.] – accompanied by a relatively low statutory retirement age after which people are able to begin receiving their pension.² At the same time, pessimistic forecasts concerning the replacement rate with regard to the obligatory part of the pension system ought to lead to increased foresight among Poles in securing the financial aspect of their retirement. For the moment, however, they have not been excessively active in this

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² For more about the reforms of the Polish pension system see [Ratajczak-Tuchołka 2012].

regard – the facilities offered under the third pillar of the pension system are used by a very small percentage of those employed.³ In fact, many people claim to be saving for retirement in various other forms; yet the possibility of full withdrawal at any moment (from a bank, for example) means that these funds are a very poor guarantee of financial stability during retirement. According to widespread opinion, the best form of financial security is real property. Possible sources of provision for retirement based on such property include purchasing property for rent or resale, renting out rooms, and taking out a reverse mortgage annuity or reverse mortgage loan.

One of the ways of increasing one's income during retirement is to make use of a reverse mortgage (RM). According to the relevant Polish law [*Act of 23 October 2014 on reverse mortgage*] a person entitled to this option must be the owner or co-owner of the property; alternatively, they may possess the right of cooperative ownership or perpetual usufruct.

One might hypothesise, though, that for the RM to be perceived as one of the ways of securing financial stability in old age, there must be some changes in the mentality of Poles, who feel very strong attachment to their homes. This is because ownership – not only for Poles – provides a feeling of being in control of one's life and reduces the likelihood of falling into poverty. Sale of one's property or loss of ownership rights is perceived as risky, because people do not know for how long they will live and whether they will do so in good health; the property may become additional security for old age and its issues [Toussaint, Elsinga 2010]. Many authors also indicate that owning a home may be positively correlated with general affluence, health, self-esteem, or even level of social commitment [Searle, Köppe 2014].

2. Research methodology

Preliminary research was conducted to identify the opinions and attitudes of households towards reverse mortgages. The primary source of information for this article was a survey carried out by the Department of Market Research and Services Management at Poznan University of Economics and Business. The survey was conducted in 2015 among a representative randomised sample of 443 adult inhabitants of the Wielkopolska region (in fact 520 respondents originally took part in the study, but based on the completeness and cohesion of the responses, only 443 questionnaires were considered in the analysis). Spatial randomisation was performed in multiple stages – first towns were randomly selected, followed by districts, and then buildings where the interviews were conducted. The structure of the sample reflected the population structure in terms of the age and level of education of the head of the household, the number of household members and the size of the town where they lived – the representativeness of the sample was assessed by comparing the breakdown obtained in the sample and the population breakdown by means of a chi-square test with $\alpha=0.05$.

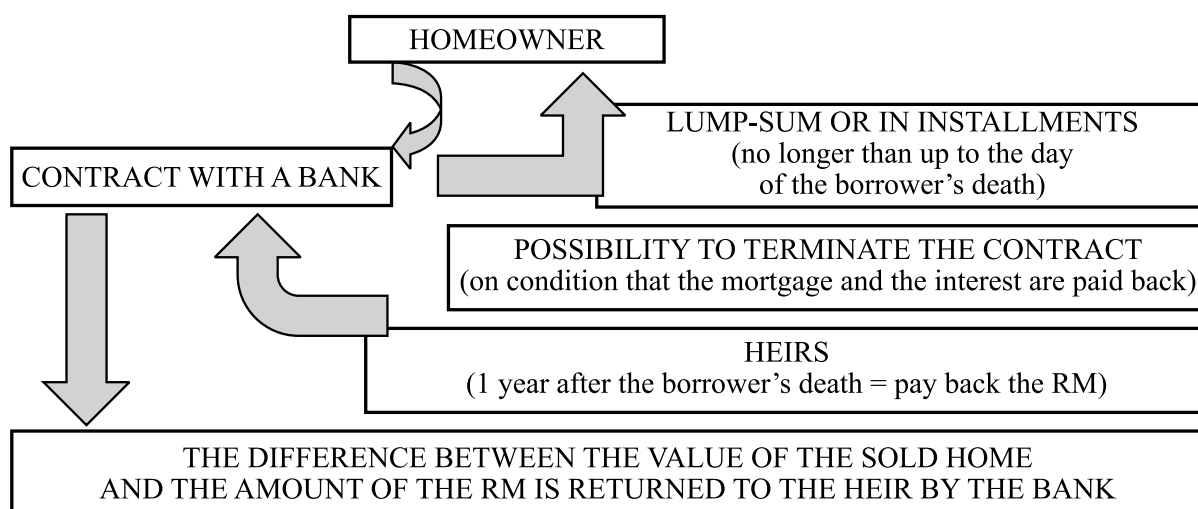
³ For instance, in 2015 only 2.24% of the employed belonged to Occupational Pension Programmes, and 4.9% had Individual Retirement Accounts [source: Polish Financial Supervision Authority].

The survey was conducted in the form of a pen-and-paper interview with the use of a standardised questionnaire. The subject matter encompassed:

- the importance of owning a home (including its condition, location and furnishings) for quality of life during retirement (against other determinants);
- attitude towards potential actions to be taken in case of insufficient pension income, including moving to a smaller home, moving to a smaller town where the cost of living is lower, renting out a room (e.g. to a student), selling one's home and living with one's children or relatives, and taking out a reverse mortgage;
- spontaneous recognition of the term “reverse mortgage”;
- evaluation of the respondent's willingness to take out a reverse mortgage;
- perception of the factors which might encourage the consumer to decide to take out a reverse mortgage, such as:
 - lack of children or relatives to bequeath the home to;
 - poor relations with children or relatives;
 - lack of funds for basic living costs;
 - desire to spend the acquired funds on hobbies, travelling or other pleasures;
 - children living in another city/region;
 - health problems (one's own, one's partner's, children's) and the need for additional funds;
 - financial problems of children and desire to help them (with funds acquired from the RM);
 - others.

Because previous research had suggested [Olejnik 2011, pp. 56-58] that Poles' level of knowledge about RMs is low, before the respondents declared their potential willingness to take out an RM and evaluated the factors affecting it, they had been given an explanation of the product by the interviewer using Diagram 1.

Diagram 1. The idea of the reverse mortgage – essential steps

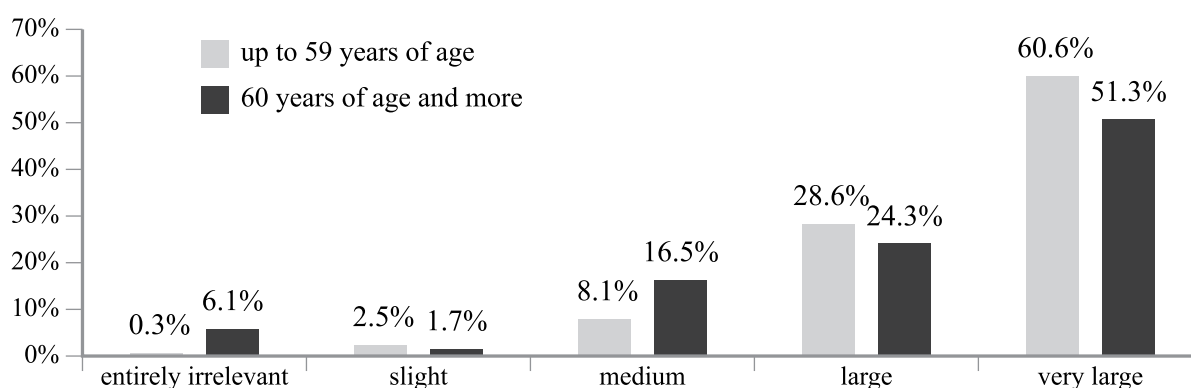


Source: Author's own compilation.

3. Research findings

The level of acceptance of RMs as a possible way to increase one's income in old age depends on many factors. One of them is perception of the influence of owning a home, including its condition, location, standard, etc., on quality of life during retirement. As the research shows, home ownership is seen as a key factor for quality of life during retirement.⁴ As many as 58% of respondents believe that it is a crucial factor, and another 28% that it is important (Figure 1). It should be noted, however, that the perceived importance of home ownership decreases as the respondents' age increases (statistically significant correlation). It should be pointed out that some respondents may have had problems differentiating between ownership and the possibility of life-long occupancy of their home, which is the key element of the reverse mortgage. Obviously, such a nuance could influence the results.

Figure 1. Perception of the influence of home ownership on quality of life during retirement, by respondents' age



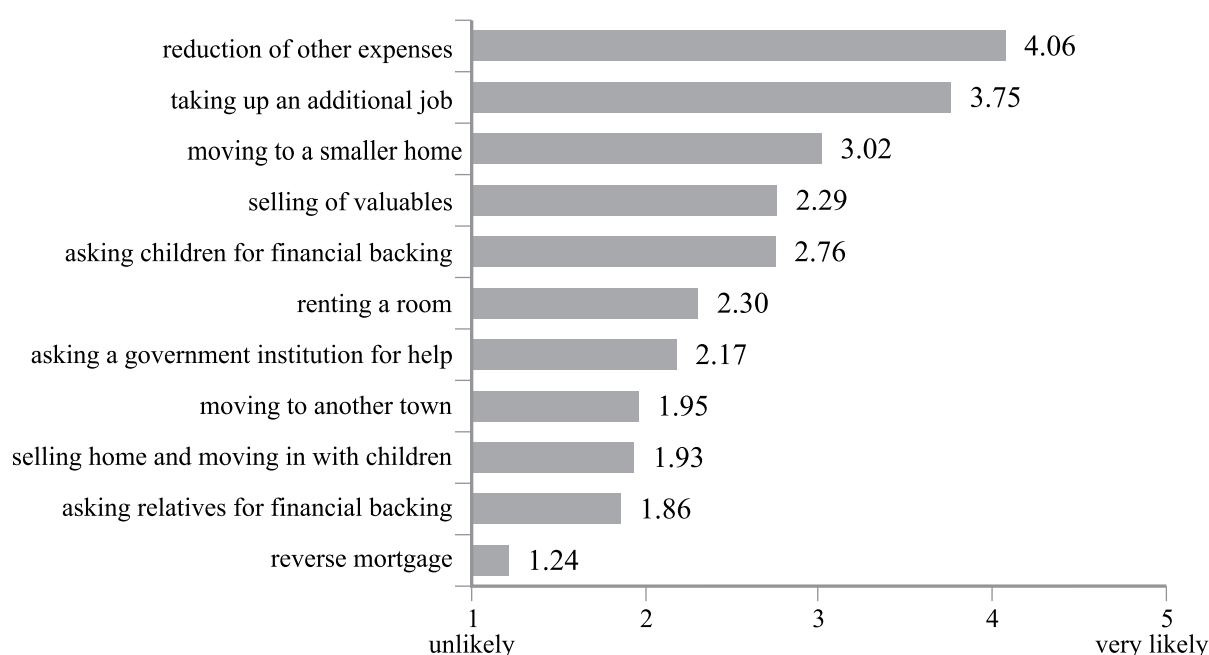
Source: Authors' own study.

Another factor which may affect a person's attitude towards the RM is their opinion about various potential actions taken to remedy insufficient pension income. The larger is the shortage of funds in the pensioner's household, the greater the likelihood of taking action to reduce it, including actions relating to the owned property. Hence, respondents to the survey were asked for their opinions concerning the options of moving to a smaller home, moving to a smaller town where the cost of living is lower, renting out a room (e.g. to a student), selling the home and living with children or relatives, and taking out a reverse mortgage.

⁴ Among other factors evaluated (on a five-grade scale from 1 – entirely irrelevant – up to 5 – very large influence) were the following: relations with the family, relations with neighbours, tangible assets owned, health, amount of pension, amount of savings, opportunities to pursue a hobby, self-development opportunities, opportunity to work professionally for as long as possible, the sense of being useful, opportunity to help relatives, and pursuit of charitable activities. Home ownership was ranked in third place, after health and the amount of pension. This high ranking of property ownership is also evidence of people's very emotional attitude to their homes.

The research findings indicate that people in Wielkopolska, when faced with insufficient pension income, would primarily reduce spending and take up additional jobs (Figure 2). When it comes to property, the most acceptable option was moving to a smaller home, or possibly renting a room to a third party. Respondents do not display much acceptance for selling their homes and moving in with children or relatives. The reverse mortgage is the least popular option. It may be concluded that it has been corroborated that people living in Wielkopolska show great attachment to ownership of their homes.

Figure 2. Potential actions taken by respondents in Wielkopolska to remedy assumed insufficient pension income



Source: Authors' own study.

A factor relevant to the perception of RMs is the level of awareness and knowledge about the product. Analysis of spontaneous recognition of the RM concept by respondents in Wielkopolska revealed that 61% claim to have no knowledge about it whatsoever, while 12% know the name but have no other information about it, and 27% possess rather basic knowledge of the product.⁵ Knowledge about the RM is usually limited to a simple statement that it is a bank loan offered to elderly people in return for bequeathing their home to the bank. Hardly anyone is able to give any further details concerning the product, and the name itself, “*reverse mortgage loan*”, evokes rather negative connotations.⁶

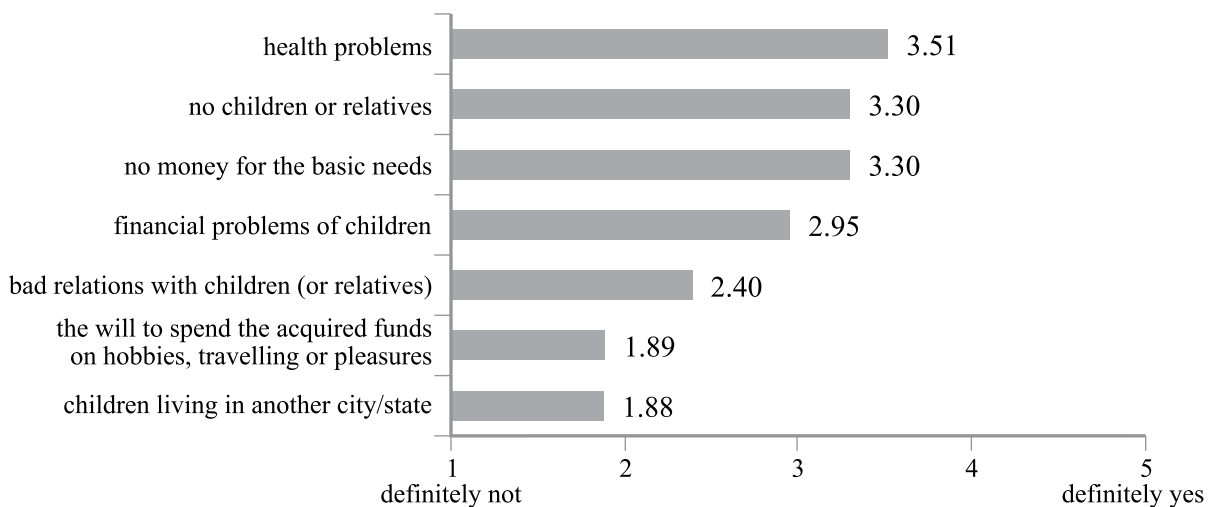
⁵ For comparison, research conducted in Spain also shows that Spanish old age pensioners have very little knowledge of RMs – only 43% of them claim to have heard about the product at all; see [Costa-Font, Gil, Mascarilla 2010, pp. 375-395].

⁶ Further see [Olejnik 2016, pp. 97-98].

In view of the low level of knowledge about the product, respondents were offered explanations (using Diagram 1) about the essential mechanism of the RM. As the research indicates, however, people in Wielkopolska are rather unwilling to use the product – half of respondents gave a definitely negative response, while another 15% were rather uninterested in this solution. Only 4% definitely accept the possibility, and a further 6% might possibly use such a product to increase their income during retirement. Significantly, 25% of adults state that they don't know whether they will use an RM in the future.

In the context of the perception of a home as a bequest, it is not surprising that RMs are most popular among those who have no children.⁷ On the other hand, it may seem somewhat surprising that those who have the most positive attitude to RMs are people with fairly high income, who, at least theoretically, do not need additional funds. However, as research findings in other countries seem to indicate, it is persons with low income who find it hardest to change their behaviour and attitudes. According to Englehardt et al. [2010, pp. 249-258], in such cases there is no guarantee that even if these people owned some tangible assets (e.g. real property) they would be willing to use it to alleviate the effects of poverty and would decide to take out an RM. Hence, more often than not, people using RMs are relatively wealthy.

Figure 3. Factors influencing willingness to take out a reverse mortgage – average scores



Source: Authors' own study.

As the research indicates, the most important factors which might encourage people in Wielkopolska to take out an RM are health problems and the need for additional funds for medical care (average score 3.51⁸; 29.8% of respondents declared that bad

⁷ Similarly, research conducted in other countries suggests that whether or not one has children affects one's perception of property as a potential pension provision; people having no children are more likely to see it in this way; see e.g. [Toussaint, Elsinga 2010, pp. 1041-1042].

⁸ On a scale from 1 – definitely not – up to 5 – I would definitely use an RM for this reason.

health would definitely induce them to use an RM). Other factors mentioned included lack of funds to address basic needs or lack of children to bequeath the home to (in both cases with a score of 3.30) (Figure 3). Lack of funds for essential needs would definitely contribute to the use of an RM according to 27.8% of respondents, while lack of children or relatives would do so according to 35.7%.

The present findings may be compared with the results of a survey conducted in Spain. It was found that the Spanish would first of all use RMs to remedy, broadly speaking, a poor financial condition of the household (37% of responses). Other motivators, such as helping other family members or financing greater consumption (5% and 2% of responses respectively) turned out to be much less relevant.⁹ On the other hand, research on the American market shows that the key reason for using RMs is the need to obtain additional funds to satisfy basic needs (48% of responses) and to improve quality of life and address higher-level needs (38% of responses) [Redfoot, Scholen, Brown 2007].

4. Conclusions

The interpretation of the results is culturally dependent. People's values, lifestyles and intergenerational relationships play important roles. The results of this survey are representative for inhabitants of the Wielkopolska region, but may not be accurate in relation to Poles in general. The above discussion of attitudes to reverse mortgages in Wielkopolska shows that people there are very much attached to home ownership and regard it as a crucial factor determining their quality of life during retirement. Parallel to this, the findings suggest a very low level of knowledge about RMs and negligible interest in potential use of this financial product. However, reluctance to use RMs results not only from lack of familiarity with this tool. It is also due to the cultural environment – the sense of an obligation to bequeath property. Therefore, the RM is perceived as suitable only for those who have no heirs or cannot rely on their relatives' support. The RM solution is perceived as “*extreme*” both in economic terms (the level of the benefit is assessed as inadequate in relation to the value of the property) and because of a low level of trust in financial institutions. An RM may nonetheless come to serve as a “*last resort*” solution in case of insufficient funds for medical care or for fulfilment of the basic needs of the household.

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⁹ It should be noted, however, that the Spanish are most eager to bequeath their property to their descendants in return for care in old age or for altruistic reasons; further see [Costa-Font, Gil, Mascarilla 2010].

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Abbreviations

RM – reverse mortgage.