

**THE POTENTIAL OF HOME EQUITY CONVERSION SCHEME  
AS A HOUSING OPTION FOR  
LOW INCOME AGED HOME OWNERS**

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## **ABSTRACT**

The introduction of Home Equity Conversion Scheme in the public and private sectors has broadened the housing options for older people. The schemes provide a method to convert the equity in their home into some other usable form. The home owner still has the right to occupy the house. Due to this characteristic, the scheme tends to have potential to provide economic resources to aged home owners who are asset rich, but income poor.

The aim of this study is to examine the potential of the scheme as a housing option for low income aged home owners. The perceptions of aged home owners about this scheme are examined and related with their marital status, age, income and living arrangements. The study concludes that home ownership is placed in the highest value among the elderly, particularly those who live in a family household. As a result, the schemes are not popular amongst the older population. However, due to the increasing incidence of older lone person households, the potential of the scheme as a housing option for those groups of population may increase in the future

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# CHAPTER 1

## INTRODUCTION

### 1.1. Background

Home equity conversion is the term for converting the equity in a home into some other usable form such as a regular income payment, or a lump sum payment for renovating the house. The distinguishing characteristic of home equity conversion plans is that home owners do not have to move or vacate their home during the process. It is considered that the scheme could be very useful as a means of income support for people with a low income who are asset-rich; this applies especially to older home owners.

Since the 1980s, Australia has experienced a significant change in housing policy for older people. Enabling aged home owners to live independently in their own house is seen to be a more effective policy rather than providing excessive and expensive residential care services. As a consequence, home equity conversion programs are now seen as a viable option to enable low income aged home owners to capitalise their housing value without having to move from their home.

At present, there are home equity conversion programs conducted by several institutions in the Sydney region. The New South Wales Housing Department, for instance, introduced a Home Update Loan program in 1990 for pensioners. Other significant programs are the 'Money-for-Living Mortgage' conducted by the Advance Bank and the Selstay Encashment Plans of Selstay Pty Ltd. Recently, the Department of Social Security has also announced a new home equity conversion program that will be commenced in December 1993 and will be conducted by the Advance Bank.

The Sydney region has experienced a significant growth in its elderly population during the 1981-1991. During that period the proportion of people aged sixty-five years and over in Sydney increased from 10.1 per cent to 11.3 per cent of the population. This trend is likely to continue and is projected to reach its peak by 2010 as the post-war baby-boom generation enters retirement period.

Moreover, amongst the age cohorts, the majority of older people in Sydney tend to fall into the category of asset-rich but income-poor. The high degree of home ownership among older people is not balanced with their income that tends to decline with time. The 1991 census, for instance, shows that 65.37 per cent of people aged sixty-five years and over in Sydney were living in their own house, which was either owned outright or being purchased. On the other hand, about 68.74 per cent were identified as lower-income people who have income below \$12,000/year (ABS,1991:Cat.2722.1). The profiles of older people in the Sydney region are discussed in the Chapter Four.

## **1.2. Aim and Objectives**

The aim of this study is to investigate the potential of home equity conversion programs to increase housing choices for the low-income aged home owners in the Sydney region. More specifically, the objectives of the study are:

- To examine the various home equity conversion schemes operating in Sydney.
- To review the potential of these programs in conserving housing stock for the elderly.
- To identify the general advantages and disadvantages of the programs

### **1.3. Scope and Limitation of the Study**

This study examines the potential of the home equity conversion scheme as a housing option for elderly home owners in the Sydney region. The focus of the study deals with the programs conducted by the New South Wales Housing Department and private institutions in the Sydney region. The program conducted by the NSW Housing Department is currently suspended and is subject to review.

A pilot survey is conducted to examine the perception of older people towards the utilising of their housing asset in order to support their income. The respondents interviewed for this study are home owners aged 60 and over. General preferences and the perception of respondents to the programs are identified based on the survey results. Due to the small scale of this pilot survey, the findings are only intended as an input for further research dealing with a larger population.

### **1.4. Organisation of the Study**

The study is organised into six main stages as follows:

#### *The Methodology*

The methodology is outlined in Chapter Two.

#### *Housing choices for older people*

The decline of physical, social and economic resources tends to force older people to make adjustments to their living arrangements. These adjustments, in turn, create a diversity of housing choices. The criteria in choosing living arrangements and resources constraints faced by older people, are the key factors in explaining housing choices. Discussion of these issues is necessary in

order to design the survey for older home owners. This detailed discussion of housing choices for older people is presented in Chapter Three.

*The profiles of older people in the Sydney region.*

The decisions in making housing choices by the elderly are largely influenced by the demographic characteristics and the socio-economic profiles of older people in the study area. The growth pattern of older people in the Sydney region; their living arrangements; home ownerships and their income characteristics are the basic factors that are discussed in this stage. Chapter Four presents a discussion of these factors.

*Profile of the home equity conversion arrangements.*

This stage deals with the concept of home equity conversion and examines the schemes operating in the Sydney region. Several aspects will be discussed in this stage including:

- the requirements to enter the scheme,
- the terms of payment that are available,
- the length of the contract period.
- the general advantages and disadvantages

This discussion is based on material provided by the organisations that administer such schemes. This profile of home equity conversion arrangements in the Sydney region is described in Chapter Five.

*The potential of housing equity conversion program in the Sydney region.*

The potential of home equity conversion schemes in relation to the elderly's opinion is examined in this stage. Responses of aged home owners in the Sydney region to home equity conversion schemes are provided by way of a pilot survey. Chapter Six discusses the general aspects of these responses.

### Conclusion

The findings from the previous stages will be summarised in Chapter Seven.

## CHAPTER 2

### METHODOLOGY OF APPROACH

The methodology used to undertake the study can be divided into two main parts:

- (1) data collection
- (2) data analysis.

The data collection was undertaken between July and October 1993, whilst the process of analysis was conducted from mid September 1993.

The information collected in this study consists of the primary data, secondary data and literature studies. Primary data were collected from a sample survey of older people in the Sydney region. This survey was aimed at identifying their opinion about home equity conversion programs. Secondary data were collected from the agencies that provide home equity conversion scheme products in the Sydney region. Data from the Census of Population and Housing were used to describe the characteristics of older people in the Sydney region. Literature studies were also conducted to explore the concept of home equity conversion schemes in more detail and to enrich information about the various possibilities of the programs.

#### **2.1. Sources of Data**

##### Secondary data

The secondary data were collected from the following sources:

- Brochures and publications from the New South Wales Housing Department, Advance Bank, and Selstay Pty Ltd.
- Australian Bureau of Statistics: Census of Population and Housing 1981, 1986 and 1991 for Sydney Statistical division; ABS 1988 Housing Survey-

Housing Costs of Income Units; ABS 1988 Disabled and Aged Persons Australia; and other ABS publications.

- Publications from the Australian Council on the Ageing; Australian Commonwealth Housing Commission; Australian Home and Community Care Review Working Groups; Department of Social Security; Office on Ageing- NSW Premier's Department; NSW Council on the Ageing.
- Literature Studies

### Primary Data

The primary data were collected from the following sources:

- Discussions
- Questionnaire Survey

Discussions were conducted directly with the agencies involved in housing equity conversion programs.

## **2.2. Questionnaire Survey**

A pilot survey was undertaken by using a questionnaire. The questionnaire was designed to cover the basic profiles of respondents, the housing preferences of respondents and their perceptions about home equity conversion programs. Marital status, age, income, and living arrangements are the basic parameters that applied in this survey for describing the profiles of respondents. Housing environment and perception on the needs of older people are also dealt with in the questionnaire. The questions on home equity conversion scheme are based on the actual arrangements that operate in the Sydney region.

The questionnaire survey was conducted using the following approaches:

### - Target Population

The target population of the questionnaire survey were the aged home owners who live in private dwellings. Whilst the results of the study would have been improved if the questionnaire included aged home owners, who are involved in the existing scheme, privacy reasons made it impossible to obtain details about this group. As a consequence, the survey covers the general population of older people.

### - Target Respondents

Respondents were selected from the target population using the following criteria:

- *Age or cohort groups.* The decline of physical resources in general has a close relationship with age. The need for supporting care, for instance, tends to be higher for people aged seventy-five years and over. This condition would influence the diversity on housing choices whereas security consideration becomes more important rather than the need to live independently. The age range of the older population in this study is divided into the 'young-old' (60-74 years), and the 'old-old' (75 years and over). The reason to include people aged 60-64 years is due to the incidence of early retirement and the fact that the retirement age for women is sixty.
- *Living arrangements.* Besides living alone or with a partner, older people often live with their family or sometimes share with other persons. Living with family or sharing with other persons are the examples of adjustment on the living arrangement for older people. Older people who never married would have different arrangements with their housing compared to those who married.



Respondents were also selected to represent the population distribution of older people in the inner city, the middle ring and the outer ring of Sydney. The numbers in the sample were determined on the basis of the proportion of older people in the population. Contacts were also made with the target group through organisations who contain large numbers of elderly (eg. senior citizen groups, bowling clubs).

#### - Survey Technique

The questionnaire survey was conducted by face to face interview. A questionnaire survey sheet was used as a guideline for interviewing the respondents. In most cases, respondents were asked without showing them the questionnaire survey sheet. This approach was used because many of the target respondents refused to be interviewed with the survey sheet.

#### - Sample Size

The number of respondents collected in the survey was only 29. The major reason for this was due to the lack of knowledge of the target respondents with regard to the home equity conversion issue. This in turn, required a longer time for the interview in order to explain the issue. In addition some respondents did not want to be interviewed for the longer period. As a consequence, the number of the successful interviews is quite small. As mentioned in the introduction, due to the character of the pilot survey, the discussion of the survey result is limited to the general aspect only.

## CHAPTER 3

### HOUSING CHOICES FOR OLDER PEOPLE

Housing plays an important role in the lives of older people. The function of housing becomes increasingly important for aged people due to the decline of their physical and socio-economic resources. More time will be spent at home as they decrease their external activities and limit their activity to the home.

However, the decline of physical capacity; the loss of the role of family and friends; and the decline of income may create pressure for readjustments of the life style of older people. Responses to those pressures can vary from moving to a less costly or smaller dwelling, or seeking appropriate support services either from their relatives or other people. These readjustments in turn influence their choices of living arrangements and create a diversity of housing needs.

From the perspective of resources, level of physical resources (health), social resources (family and friends) and economic resources (wealth) are the principal constraints for making readjustment on living arrangements. Older people with better resources have a greater accessibility to various options of living arrangements. However, from the perspective of decision, the choices are determined by some basic factors namely, autonomy, integration and security (Rowland, 1991: 113-115). The need to maintain life independently and freedom of control from outside (autonomy); the need to maintain social communication with family, friends and neighbourhoods (integration); and the need for security in their living place seem to be the basic criteria in determining the housing choice. The decision made by older people in choosing housing arrangements can be evaluated based on these criteria.

The diversity of housing needs for older people calls for policy responses to provide a wider range of housing options. In this sense, the housing needs of older people are to be seen as the needs for assistance to maintain their independence, and not to make them dependent. Wider housing options can be very helpful in maintaining the independence of elderly people to choose their own living arrangements.

This Chapter will first discuss the underlying factors that influence changes of living arrangements amongst older people. The pressure for adjustment, the criteria for making choice, and the constraints that limit the options will be discussed first, followed by a discussion of housing needs and housing options. Concluding remarks will be presented at the end of the Chapter.

### **3.1. Adjustments on Living Arrangements**

#### **3.1.1. Declining Resources**

Older people experience a process of declining resources with time. Physical capacity declines as people grow older and can become a constraint when people become frail or disabled. Whilst some people may maintain physical fitness until they are quite old, the process of declining physical resources is natural and inevitable.

Older people also experience a decline in the resources available for social integration. One of the important resources in this case is family relationships. Communication and contacts with family and relatives are needed in order to maintain social integration and to break isolation. Therefore, although many older people live apart from their family and relatives, they still keep in touch with their family network. However, this family resource tends to decline as people get

older. The death of a spouse and close relatives decreases the frequency of communication. At this stage, contacts within the family network may be limited to sons or daughters only.

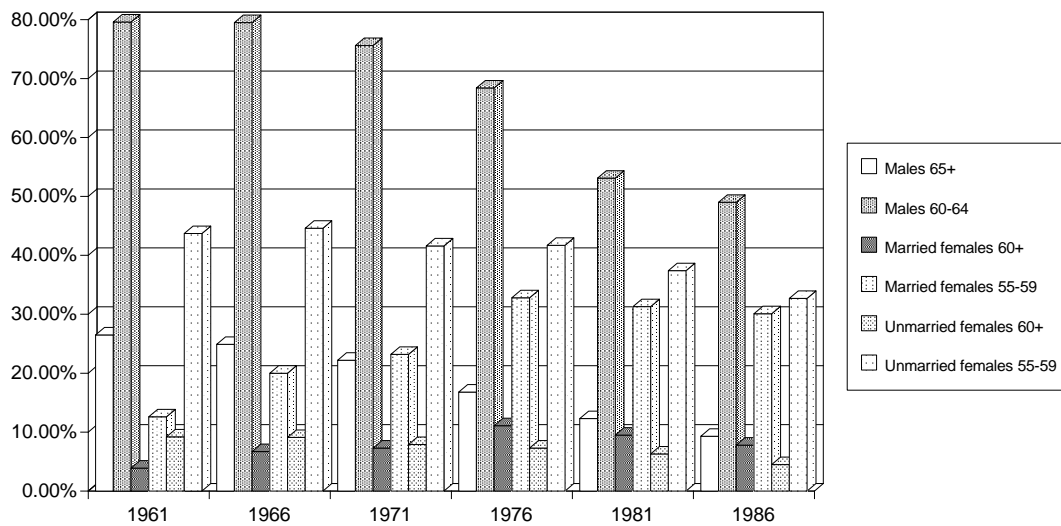
Beside family resources, friends and colleagues are also important resources for social integration. This resource tends to shift from colleagues to partners in other activities as people enter the retirement period. Moreover, external activities tend to diminish as people become more frail. As a consequence, older people will spend more of their time at home.

Economic resources tend to decline as people get older. Many older people experience difficulties entering the job market appropriate to their capabilities. In Australia, the participation rates of older people in the labour force, particularly males and unmarried females, have significantly declined since 1960. The decline of older people participating in the labour force is shown in figure 3.1. In 1961, for instance, the labour-force participation rate for males aged sixty-five and over was 26.5 per cent whilst in 1986, only 9.3 per cent of this age group worked. In the same period, the proportion of married females aged sixty and over who work has increased from 3.9 to 7.8 per cent; whilst for unmarried females the proportion has decreased from 9.2 to 4.5 per cent (Rowland, 1991: table 7.1). Many of the aged depend on the Government Pension's Scheme or Superannuation. As a result, some experience difficulties in maintaining independence and a desired lifestyle.

There is an increasing trend towards early retirement. As shown in figure 3.1, the trend for early retirement in Australia has increased significantly since the 1970s. Between 1971 and 1986, the proportion of males aged 60-64 who participate in the labour force has decreased from 75.6 to 49.0 per cent, whilst the participation

rate of males of age cohort 55-59 decreased from 88.4 to 78.1 per cent. In the same period, the labour-force participation rate of married females has grown from 23.2 to 30.1 per cent, and decreased from 44.6 to 32.7 per cent for unmarried females. Although there is an increasing labour participation rate for married females, in general there is an increasing trend to early retirement.

Figure 3.1. Labor participation rates at older ages, Australia 1961-86



**Source:** Rowland, D.T. (1991), *Ageing in Australia*, Longman Cheshire, Melbourne, table 7.1.

The trend toward early retirement is even more significant if we consider the average time life span after retirement. The life expectancies of males and females for the Sydney region in 1986 were 73.7 and 80 years respectively (NSW Department of Planning, 1991: table 24B). This means that the average life span for retired men who retired at age sixty-five is about nine years, whilst for retired women who retired at age sixty is twenty years. On the basis of these figures, men's pensioners who enter into early retirement at aged sixty may have to rely on the government pension for about fifteen years.

### **3.1.2. Constraints and Criteria for Adjustments**

The combinations of declining resources faced by older people create the need for adjustment of their living arrangements. The capability of older people to make adjustments to their living arrangements itself, in turn, depends on their resources and their preferences. Lack of resources limits their housing choice. As a consequence, the level of physical resources (health), social resources (family and friends) and economic resources (wealth) become the principal constraints for choosing living arrangements.

On the other hand, the preferences of choice are influenced by some considerations namely, autonomy, integration and security. These factors can be seen as the basic criteria for determining the housing choices of older people<sup>1</sup>.

In making decisions about living arrangements, autonomy tends to become the most important factor. This can be seen as the need to maintain life independently and freedom from external control. Loss of independence in controlling one's living arrangement for some people means a loss of dignity. Older people tend to live apart from their sons or daughters as long as they have sufficient resources to afford this type of living arrangement. Similarly, the choice to sell a house and buy a lower- priced one or to move to a retirement village is an example of how older people adjust their living arrangements in order to maintain their autonomy. Thus, as long as resources permit, autonomy becomes the main consideration for older people in making adjustments to their living arrangements.

The second important factor is integration. This factor can be seen as the need of aged people to maintain communication and contacts with family and close

friends due to social integration. There are some significant findings which indicate that the majority of older people have a strong desire to sustain the level of integration in family life (Rowland, 1991:114). The common way to maintain this 'intimacy at distance' is through visits and phone calls. Another way is by moving to a location that is close to family. This type of communication is most accessible for home owners who are healthy and mobile.

Security plays an important role in the decision especially for those with limited resources. The lack of resources limits their choice of living arrangements. Security can be seen as the need for having easy access to assistance in the case of illness. Security becomes more important as people grow older and face health problems. Security considerations could lead people to sharing accommodation or the extreme case would be to live in sheltered housing for the aged.

These three concepts can be very helpful in explaining living arrangements of older people. Moreover, it can also be used for identifying the strategy on housing policy. In Australia, for example, prior to the 1980s, the housing policy approach mostly relied on the security concept. Many nursing homes, hostels and other infrastructure facilities were built at that time to provide care services for aged people. The approach then shifted to the autonomy approach in the 1980s which was indicated by a Report from the House of Representatives Standing Committee on Expenditure on Parliament of the Commonwealth of Australia in 1982<sup>2</sup>. The report suggested a reorientation toward keeping the elderly 'at home' rather than 'in a home'.

### **3.2. Housing Needs**

The adjustments of living arrangements have a close relationship with housing arrangements. Older people tend to shift their activities to inside or around the house as they grow older. As a result, efforts to adjust living arrangements mostly relate to housing issues. The profiles of housing arrangements among older people are presented in table 3.1.

In discussing the housing needs of older people, the National Housing Strategy relies on the concept of autonomy that provides wider housing options and does not separate them from main stream housing. The facts on housing arrangements show that the great majority of older people live in mainstream accommodation with a high degree of home ownership. The 1986 Census shows that 63.5 per cent of people aged sixty-five and over are living in their own houses, whilst 8.3 per cent are still purchasing (see table 3.1). On the other hand, only 10.4 per cent of older people live in non-private dwellings which consist of nursing homes, hostels and other forms of sheltered accommodation. Moreover, most of the residents of these non-private dwellings are of an advanced age. Thus, older people cannot be viewed as a special group who need special treatment apart from the main stream housing policy.

Pressure for the adjustment of living arrangements results from various responses in different circumstances. These responses, in turn, create a diversity of needs of older people in relation to housing issues. In discussing these various needs, Rossiter classifies the them into several main categories, as follows:

- the need for assistance
- the need to move
- the need for congregate housing



- the need for information<sup>3</sup>.

This classification was based on the survey report conducted by the Australian Council On The Ageing (ACOTA) in Melbourne and Adelaide.

*Table 3.1. Profile of Housing Arrangements of Older People, Australia - 1986*

	Persons by age-group				Total aged 65+	
	65-69	70-74	75-79	80+	%	No. '000
<b>Tenure</b>						
<i>Private dwellings</i>						
Owner	66.9	67.1	64.1	51.4	63.5	1032.8
Purchaser	11.5	8.4	6.4	4.4	8.3	135.0
Public tenant	5.4	5.5	5.2	3.9	5.1	82.9
Private tenant	7.3	7.6	7.8	6.5	7.4	120.4
Other	4.8	5.3	6.0	5.4	5.2	84.6
<i>Non-private dwelling</i>	4.1	6.1	10.4	28.4	10.4	169.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>1626.4</b>
<b>Tenure and Household composition</b>						
<i>Family households</i>						
Owner/purchaser	64.1	57.0	48.5	35.0	53.6	871.8
Public tenant	3.4	3.1	2.4	1.6	2.8	45.5
Private tenant & other	8.0	7.8	7.3	5.4	7.3	118.7
<b>Total 1</b>	<b>75.5</b>	<b>67.9</b>	<b>58.2</b>	<b>42.0</b>	<b>63.7</b>	<b>1036.0</b>
<i>Lone person h-holds</i>						
Owner/purchaser	12.8	17.0	20.6	19.6	16.8	273.2
Public tenant	1.8	2.4	2.8	2.2	2.2	35.8
Private tenant & other	3.5	4.6	5.9	6.0	4.8	78.1
<b>Total 2</b>	<b>18.1</b>	<b>24.0</b>	<b>29.3</b>	<b>27.8</b>	<b>23.8</b>	<b>387.1</b>
<i>Group households*</i>	2.2	2.1	2.0	1.7	2.0	32.5
<i>Non-private dwellings</i>	4.1	6.1	10.4	28.4	10.4	169.1
<b>Total 3</b>	<b>6.3</b>	<b>8.2</b>	<b>12.4</b>	<b>30.1</b>	<b>12.4</b>	<b>201.7</b>
<b>Total (1+2+3)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>1626.4</b>

Source: NHS 1992, Background Paper 8, table 2.1; ABS 1986

\* 70 per cent of group households were owners or buyers

totals may not sum exactly due to the rounding

The need for assistance can cover various aspects that have either a direct or indirect relationship to housing arrangements. An example of indirect assistance is the need for ramps in shopping centres to assist the aged with their shopping.

The result of the ACOTA survey that covers three thousand older people, reveals that more than half of the respondents (55.4 per cent) do not need assistance on household tasks, whilst the other 44.6 per cent need it. There are eight household tasks identified in the survey that divide into two distinct groups. The first group is defined as domestic tasks that consist of:

meal preparation

shopping

linen/laundry

light houseworks

heavy houseworks.

The other group consists of tasks that relate to the independence of family assistance and community assistance to older people in their home. In terms of domestic tasks, the proportion of older people who need assistance is only 23.6 per cent (ACOTA and ADCS, 1985: 344-347). These findings support the assumption that older people desire to maintain their life independently.

Home maintenance and repairs are other factors that need particular attention in order to maintain the quality of housing of aged persons. The ACOTA survey, for instance, found that 31.4 per cent of the respondents need repairs and maintenance on their housing (ACOTA and ADCS, 1985: table 5.20). This need seems to have a strong relationship to household composition, dwelling size, and appropriateness of housing design. The 1986 Census indicates that two-thirds of older people who live in family households consist of couples only. Moreover, about 16.8 per cent of older people who live alone are either an owner or purchaser (see table 3.1). In terms of housing type and dwelling size, about 77 per cent of people aged sixty-five years and over, lived in separate houses; and

82 per cent of older people lived in dwellings that had two or more bedrooms (NHS, 1992a: 19-23). These figures support the common view that older people under-occupy their housing and experience difficulties in maintaining such larger housing.

Another feature that influences the need for housing repairs is the need for design changes. Older people, for instance, need assistance to redesign their kitchen or bathroom; they may also need some support to modify the existing arrangement. Modification to the house can enhance their level of independence and diminish the motivation for moving.

Moving is one of the possible options in response to the pressure for adjustment. The ACOTA survey indicates that 34.3 per cent or about one-third of the residents would consider moving either soon or in the future (ACOTA 1985: table 5.31). However, moving needs to be considered as an extreme response in the case where older people can no longer maintain their existing homes. The ACOTA study reveals that most of the respondents (88.2 per cent) were satisfied with their current neighbourhood (ACOTA 1985: table 5.24).

The needs for shared housing can be related to the consideration of maintaining social integration. As discussed in the previous section, maintaining social integration through interaction within family life tends to be most important for older people. Moreover, they place autonomy as the highest priority on making adjustment with their living arrangement. The need for shared housing is relatively small, and is seen by many as a compromise. The ACOTA survey shows that, if they move or have to move, about 63 per cent of respondents prefer to choose various types of non-shared housing such as a separate house,

terrace house or a self-contained flat. Only 13.6 of respondents choose retirement villages, and only 12.8 per cent nursing homes.

Information plays an important role for choosing appropriate housing options. Lack of adequate information, especially for older people who spend a great deal of time at home, can limit choice and create inappropriate decisions. To avoid this possibility, older people need clear information about housing options, their prospects, and the possibilities of consequences when choosing the option. Information about government policies is also needed by older people for planning their future life. Unclear information sometimes can bring frustration to older people due to the uncertainty of future life and loss of independence in making plans for their future life.

### **3.3. Housing Options**

The discussion in the previous Sections has described various housing needs and the problems faced by older people in relation to housing choice. As mentioned in those Sections, the housing problems for the elderly are mostly related to the adjustment process which in turn requires some assistance and support covering finance, physical services, and the social environment.

Basically, housing options for older people can be divided into four groups, as follows (Wilson and Calder, 1990: 6):

- *Sole occupancy*. This refers to conditions where older people live in their home which is not part of a collective housing scheme or part of an extended family. This option relates to the 'staying put' option.

- *Moving in with family and friends.* This can occur in various ways such as sharing accommodation or living in a separate part of the existing home. This option relates to urban consolidation policy which aims to increase the density of dwellings.
- *Group housing.* This refers to accommodation that is designed for more than one individual or couple at a time. This option covers boarding houses, private hostels, share housing with people other than family and friends, and housing cooperatives scheme.
- *Specific housing* or housing designed specifically for older people. This option includes hostels, retirement villages, and other similar types of accommodation.

The NHS, in discussing policy responses for housing for older people, suggests the integration approach to link the needs for housing, support and care (NHS, 1992: 88). Furthermore, the NHS also identifies several innovations under the Commonwealth State Housing Agreements (CSHA) which provide housing assistance to low-income older people (NHS, 1992: 98-99). These innovations cover the following aspects:

- More medium density housing is being provided through various initiatives such as infill housing, dual occupancy, joint venture's scheme and the Local Government Community Housing Program (LGCHP). Infill housing and dual housing relate to the urban consolidation strategy.
- Various group-housing programs are provided as an intermediate option between independent living and hostels care. One of the examples is the Abbeyfield model conducted in the Orange district.
- The extension of home renovation financing and advisory services through Home Modification and Maintenance Program (HMMP) which is provided

under the Home and Community Care program (HACC). This program aims to enhance the option of 'staying put'.

- The extension of joint ventures scheme by offering opportunities for social housing in shared equity and mixed tenure projects. This program is conducted under the HACC scheme.
- Development and extension of various innovations to improve access for low-income tenants.

### **3.4. Concluding Remarks**

Changes in the resources of older people may create pressures for adjustments to living arrangements. These adjustments in turn, depend on resources constraints and the criteria used by older people in making choices about housing arrangements. On the one hand, level of physical resources (health), social resources (family and society), and economic resources (wealth) that decline with age become the principal constraints in making choices. On the other hand, the needs of maintaining independent life (autonomy), social interaction (integration), and the need for security in their living place are the basic criteria that are applied by older people in determining housing arrangements. The adjustment between these criteria and the resources constraints seem to be the key factors that need to be considered when dealing with housing choices among the elderly.

As the function of the home becomes central to the elderly, their housing needs relate to wider issues of living arrangements. There are four important issues

relating to the housing needs of the elderly, namely, needs for assistance; needs of moving; needs of shared housing; and needs of information. Among these needs, assistance for continuing to live at their own house seems to be the most important.

Housing options for the elderly can be divided into four types, namely, sole occupancy; moving in with family and friends; group housing; and specific housing. Sole occupancy can be called the 'staying put' option of housing policy, whilst moving in with family and friends is related to urban consolidation. Group housing relates to the public housing policy, whilst specific housing relates to the policy of service provision and private sectors activities in retirement villages.

Considering the options listed above, home equity conversion schemes can be seen as one of the policy options which support the 'staying put' policy. Under this scheme, older people can be encouraged to stay at their homes, while at the same time they can also utilise their equity on house for other purposes. Discussion about home equity conversions schemes is presented in Chapter Five.

**Notes :**

1. Rowland, D.T. (1991), *Ageing in Australia*, Longman Cheshire, Melbourne, pp.113-115. He suggests the three approaches as basic considerations for examining living arrangements from the perspective of goals and resources. Furthermore, for contemporary Australian context, he suggests autonomy as the first consideration.

2. Hugo, G. (1987), 'Ageing in Australia: The Spatial Implications', *Urban Policy and Research*, Vol.5 No. 1, p.26. He indicates the report from House of Representatives Standing Committee on Expenditure on 1982 as the turning point on housing policy for older people in Australia.

3. Rossiter, C. (1987), 'Housing and Aged Care Policies in Australia', *Urban Policy and Research*, Vol.5 No. 1, pp.27-29. This paper tries to identify the housing needs among the elderly in wider term, and not put older people as a

separate group who needs specific services such as hostels, retirement villages, etc.



## CHAPTER 4

### THE PROFILES OF OLDER PEOPLE IN THE SYDNEY REGION

#### 4.1. Population of the ageing

Between 1981-1991, the proportion of older people in the Sydney region has increased; the proportion of people aged 65 years and over has risen from 10.10 per cent to 11.33 per cent respectively. At the same time, the proportion of young people has decreased. Within the same period, the proportion of people aged under 15 years has decreased from 23.50 per cent to 21.09 per cent. The changes of the proportions for those age groups in the last three consecutive censuses are presented in table 4.1.

**Table 4.1. Population distribution by age group, 1981-1991**

age group	1981		1986		1991	
	Sydney	NSW	Sydney	NSW	Sydney	NSW
0-14	23.50%	24.30%	22.20%	22.80%	21.09%	22.04%
15-64	66.40%	65.60%	67.00%	66.20%	67.58%	66.08%
65+	10.10%	10.10%	10.80%	11.00%	11.33%	11.88%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source : ABS 1991, Cat. 2730.1 and ABS 1981, Cat.1304.1

In actual numbers, the population of older people in the Sydney region in 1991 was 401,026. This figure represents 58.90 per cent of the total aged people in New South Wales. Of this group, 58.87 per cent were elderly females, indicating that women are more likely to survive in old age.

The major factors that influence the increasing proportion of older people are the low rate of fertility and the increasing life expectancy. The fertility rate in the Sydney region was the lowest figure for New South Wales and has decreased from 1835 children per 1000 women in 1981 to 1780 children per 1000 women in 1989 (NSW Department of Planning,1991:table 17). On the other hand, the life

expectancy for males has increased from 71.2 years in 1981 to 73.7 years in 1986; whilst for females the figure has increased from 78.0 to 80.0 years respectively (NSW Department of Planning, 1991: table 24B). Given that these trends are likely to continue the number of older people in the region is almost certain to increase.

The proportion of older people within the Sydney region varies between Local Government Areas (LGAs), with location of the LGA being significant. The 1991 census, shows that the highest proportions of the elderly occur in the middle ring LGAs, whilst the inner ring LGAs tend to have moderate proportions of older people. Outer ring LGAs tend to have smaller proportions of aged people with the exception of Gosford and Wyong - located on the central coast and a preferred retirement area. Table 4.2 shows the proportion of elderly population for each LGAs within the Sydney region.

**Table 4.2. Proportion of older population in LGAs - Sydney 1991**

<b>Inner Ring</b>	persons	%	<b>Middle Ring</b>	persons	%	<b>Outer Ring</b>	persons	%
Ashfield	5,754	14.19	Auburn	5,919	12.19	Baulkham Hills	7,411	6.50
Botany	4,143	12.03	Bankstown	20,085	13.05	Blacktown	12,401	5.86
Drummoyne	4,817	15.95	Burwood	4,178	14.73	Blue Mountains	8,188	11.79
Lane Cove	4,313	14.90	Canterbury	15,355	11.88	Camden	1,943	8.65
Leichhardt	6,457	11.04	Concord	3,654	15.78	Campbelltown	6,214	4.51
Marrickville	7,317	9.38	Hunters Hill	2,206	18.42	Fairfield	12,385	7.07
Mosman	3,865	15.24	Hurstville	9,941	15.59	Gosford	21,057	16.33
North Sydney	6,631	13.14	Kogarah	7,678	16.51	Hawkesbury	3,398	6.62
Randwick	15,170	13.15	Ku-ring-gai	14,337	14.45	Holroyd	8,522	10.77
Sydney	1,285	9.52	Manly	5,944	17.03	Hornsby	14,954	11.71
South Sydney	8,886	11.42	Parramatta	16,482	12.41	Liverpool	6,431	6.55
Waverley	8,424	14.26	Rockdale	13,623	16.20	Penrith	8,392	5.61
Woollahra	7,716	15.46	Ryde	12,212	13.54	Sutherland	19,025	10.32
			Strathfield	4,008	15.52	Warringah	22,332	12.98
			Willoughby	7,972	15.48	Wollondilly	2,166	7.16
						Wyong	17,835	17.75
<b>Inner Ring</b>	<b>84,778</b>	<b>12.80</b>	<b>Middle Ring</b>	<b>143,594</b>	<b>14.02</b>	<b>Outer Ring</b>	<b>172,654</b>	<b>9.32</b>

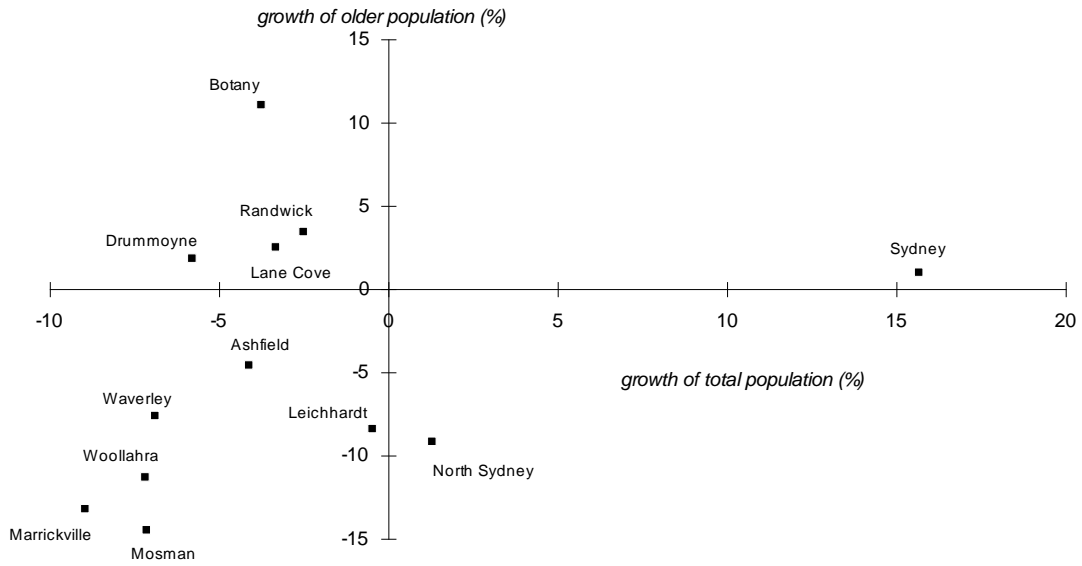
Sources: ABS 1981, ABS 1991 Cat.2730.1

This variation in the proportion of aged people within the three groups of LGAs can be explained by their patterns of population growth. Between 1981 and 1991, the majority of LGAs in the inner ring Sydney experienced a decline of total population. The positive growth of total population only occurred for Sydney (including South Sydney) and North Sydney. In the same period, the changes of older population in the inner ring LGAs varied between -15 per cent to +15 per cent ( see figure 4.1).

The LGAs in middle ring, on the other hand, experienced a negative growth of total population, but faced a positive growth of older population as a result of the 'ageing in place' process. The negative growth of total population on the one hand, and the process 'ageing in place', on the other hand, creates a higher proportion of older population in the middle ring LGAs. The relation between the total population growth and the growth of older population in the middle ring LGAs are shown in figure 4.2.

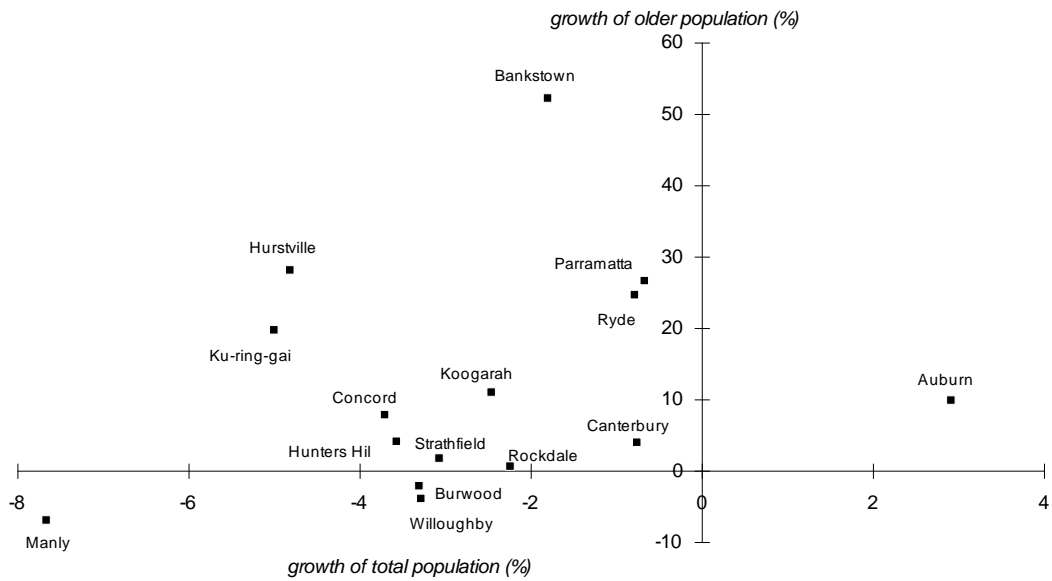
Figure 4.3 shows that both older population and the total population in the outer ring LGAs increased between 1981 and 1991. This means that those areas are still growing and face significant changes of population structure. Moreover, the growth of older population in these LGAs tends to be higher than the growth of total population. The highest growth of older population occurs in the LGAs that have a low proportion of elderly such as Campbelltown and Penrith. It is likely that the outer ring LGAs will face a rapid growth of older population in the near future.

**Figure 4.1. Comparison of Population Growth for Inner Sydney 1981-1991**



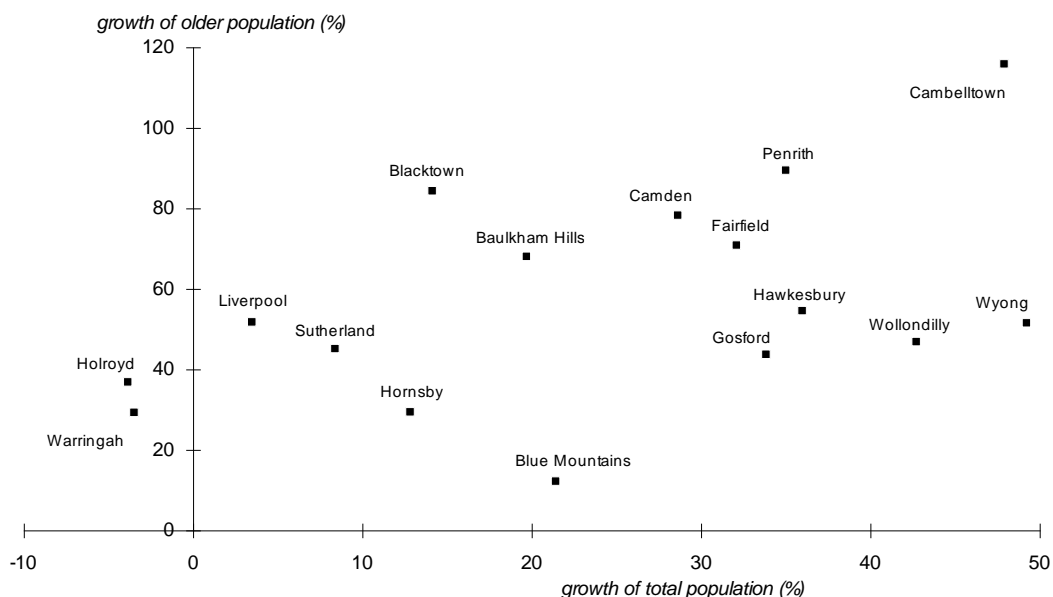
Sources: ABS 1981, ABS 1991 Cat. 2730.1

**Figure 4.2. Comparison of Population Growth for Middle Ring Sydney 1981-1991**



Sources: ABS 1981, ABS 1991 Cat. 2730.1

**Figure 4.3. Comparison of Population Growth for Outer Ring Sydney 1981-1991**



Sources: ABS 1981, ABS 1991 Cat. 2730.1

## 4.2. Living Arrangements

Beside the difference in numbers of population, elderly males and females have significant differences in living arrangements. As shown in table 4.3, most of the elderly males tend to live with a partner. On the contrary, most of the elderly females tend to live without a partner. In 1991, about 72.08 per cent of the elderly males in Sydney were married, and only 13.97 per cent were widowed. However, about only 40.00 per cent of elderly females were married compared to 46.47 per cent widowed. The proportion of elderly males living with a partner was 64.90 per cent; whilst for elderly females, the proportion was only 33.87 per cent. Almost two-third of elderly females (=66.13 per cent) live without a partner. These figures indicate that elderly women prefer to retain their status as a widow rather than live with a new partner.

**Table 4.3. Marital status and living arrangement of people aged 65+, Sydney 1991**

	males		females		persons	
	no's	%	no's	%	no's	%
<b>Marital status</b>						
never married	12506	3.12	17888	4.46	30394	7.58
married	118886	29.65	94436	23.55	213322	53.19
separated	3159	0.79	3315	0.83	6474	1.61
divorced	7338	1.83	10743	2.68	18081	4.51
widowed	23036	5.74	109721	27.36	132757	33.10
<b>Total</b>	<b>164925</b>	<b>41.13</b>	<b>236103</b>	<b>58.87</b>	<b>401028</b>	<b>100.00</b>
<b>Living arrangement</b>						
living with a partner	106999	26.68	79999	19.95	186998	46.63
living without a partner	57874	14.43	156182	38.94	214056	53.37
<b>Total</b>	<b>164873</b>	<b>41.11</b>	<b>236181</b>	<b>58.89</b>	<b>401054</b>	<b>100.00</b>

Source: ABS 1991, Cat. 2722.1 table B6 & B7

The marital status of elderly people has a significant influence on their household arrangements. As shown in table 4.3, the proportion of married elderly were about 53.19 per cent of total older population. This figure is quite similar to the proportion of older people who live in family households shown in table 4.4. The relative proportion of elderly who live in family households were 59.70 per cent, whilst the other 40.30 per cent were living in non-family households. The most dominant household arrangements for the older people were living as a couple only and living alone.

Table 4.4 also shows the different characteristics of the household arrangement of the the elderly compared to the total population. Among the different types of family households, the high incidence of living with relatives only occurred for older people (see table 4.4 column 6). The proportions of the older people in these household arrangements were greater than the proportion of the elderly in the population. In two-parent families, for instance, about 42.18 per cent of relatives who live with these families were people aged 65 years and over. In one parent families, the figure was 30.48 per cent; whilst for couple-only households, the proportion of elderly relatives who live with these households were 37.67 per cent. These figures indicate the importance of family relationship as one of the

social resources for older people. As discussed in the chapter three, family relationships can be related to the criteria of maintaining social integration in making housing choices.

**Table 4.4. Household arrangement of people aged 65+ for Sydney 1991**

	people aged 65+		total population		proportion
	persons	%	persons	%	%
<b>Family H-Holds</b>					
1 - two parent families	47420	11.83	1960449	55.40	2.42
parents	32543	8.12	955451	27.00	3.41
other offspring	12	0.00	969754	27.40	0.00
relative	14865	3.71	35244	1.00	42.18
2 - one parent families	20881	5.21	319127	9.02	6.54
parents	16794	4.19	118442	3.35	14.18
other offspring	835	0.21	190015	5.37	0.44
relatives	3252	0.81	10670	0.30	30.48
3 - couple only	159362	39.74	538814	15.23	29.58
partners	154537	38.54	526007	14.86	29.38
other rel.	4825	1.20	12807	0.36	37.67
4 - other rel.	10344	2.58	43834	1.24	23.60
5 - unrel. members	1383	0.34	31715	0.90	4.36
<b>Total 1</b>	<b>239390</b>	<b>59.70</b>	<b>2893939</b>	<b>81.78</b>	<b>8.27</b>
<b>Non Family H-Holds</b>					
6 - group h-holds	7557	1.88	144551	4.08	5.23
7 - Lone persons	97393	24.29	237277	6.71	41.05
8 - Visitors	11163	2.78	86504	2.44	12.90
9 - Not classified h-h	6108	1.52	70662	2.00	8.64
10 - non-private dwell.	39356	9.82	105673	2.99	37.24
<b>Total 2</b>	<b>161577</b>	<b>40.30</b>	<b>644667</b>	<b>18.22</b>	<b>25.06</b>
<b>TOTAL</b>	<b>400967</b>	<b>100.00</b>	<b>3538606</b>	<b>100.00</b>	<b>11.33</b>

Source: ABS 1991, Cat. 2722.1 table B33

Among non-family households, living as lone persons and living in non-private dwellings were also common amongst a high proportion of older people. About 41.05 per cent of lone-person households and 37.24 per cent of people who live in non-private dwellings were people aged 65 years and over. The high level of

lone-person households suggests the preference of older people to maintain their independence. Older people who live in non-private dwellings include those who live in nursing homes and hostels.

### 4.3. Home Ownership

Housing is a very important resource for older people. Most activities are shifted to the house as they face declining physical resources. Beside ensuring the independence of life style, living in their own house gives a feeling of security to older people. In terms of economic resources, a house can also be seen as important asset when older people face a decline of regular income.

As discussed in Chapter Three, the level of home ownership among older people is likely to be higher than amongst the other age groups. One of the reasons for this is the average age of entering home ownership which occurs at about age 35. As a result, most Australians become outright home owners before retiring.

**Table 4.5. Household arrangements by tenure for people aged 60+, NSW 1986**

	owners	purchasers	R e n t e r s				not stated	Total
			Housing Authority	Other Govt.	Private	Others		
<b>Family H-Holds</b>								
Parents or partners	44.66%	6.62%	2.47%	0.17%	3.41%	0.32%	3.73%	61.38%
Other family h-holds	3.84%	1.80%	0.29%	0.05%	0.64%	0.04%	0.33%	6.98%
Unrel. family h-holds	0.33%	0.12%	0.02%	0.01%	0.09%	0.01%	0.04%	0.61%
<b>Total 1</b>	<b>48.82%</b>	<b>8.54%</b>	<b>2.78%</b>	<b>0.22%</b>	<b>4.13%</b>	<b>0.37%</b>	<b>4.10%</b>	<b>68.97%</b>
<b>Non Family H-Holds</b>								
Group h-holds	1.35%	0.15%	0.07%	0.01%	0.38%	0.04%	0.23%	2.22%
Lone persons	13.45%	0.92%	1.84%	0.08%	2.18%	0.37%	1.91%	20.74%
Non-private dwell.						8.06%		8.06%
<b>Total 2</b>	<b>14.79%</b>	<b>1.07%</b>	<b>1.91%</b>	<b>0.09%</b>	<b>2.56%</b>	<b>8.47%</b>	<b>2.13%</b>	<b>31.03%</b>
<b>TOTAL</b>	<b>63.62%</b>	<b>9.61%</b>	<b>4.68%</b>	<b>0.31%</b>	<b>6.70%</b>	<b>8.85%</b>	<b>6.23%</b>	<b>100.00%</b>

Source: NSW Department of Housing (1990), ABS 1986 table CX010

Data on table 4.5 shows the types of tenure in relation to household arrangements. The proportion of older people who own their own house was 63.61 per cent and those who are still purchasing houses was 9.61 per cent.



Among family households about 70.78 per cent owned their own home, whilst the other 12.38 per cent were still purchasing. The level of home ownership was lower for older people who live in non-family households. The proportion of home owners and home purchasers in this group of households were 47.66 and 3.45 per cent respectively. The proportion of lone-person households who own or purchase their house were 69.28 per cent of the total lone-person households.

#### 4.4. Income

Declining income sources is the common feature faced by older people. The 1991 census shows that more than two-thirds (=68.74 per cent) of older people are within the lowest income group (see table 4.6). More than 80 per cent of older people in Sydney have an income below \$20,000 per annum. This figure comprises 37.63 per cent of total persons aged 15 and over. Therefore, more than one-third of persons aged 15 and over who have an income below \$20,000 were people aged 65 years and over.

**Table 4.6. Annual Individual Income, Sydney 1991**

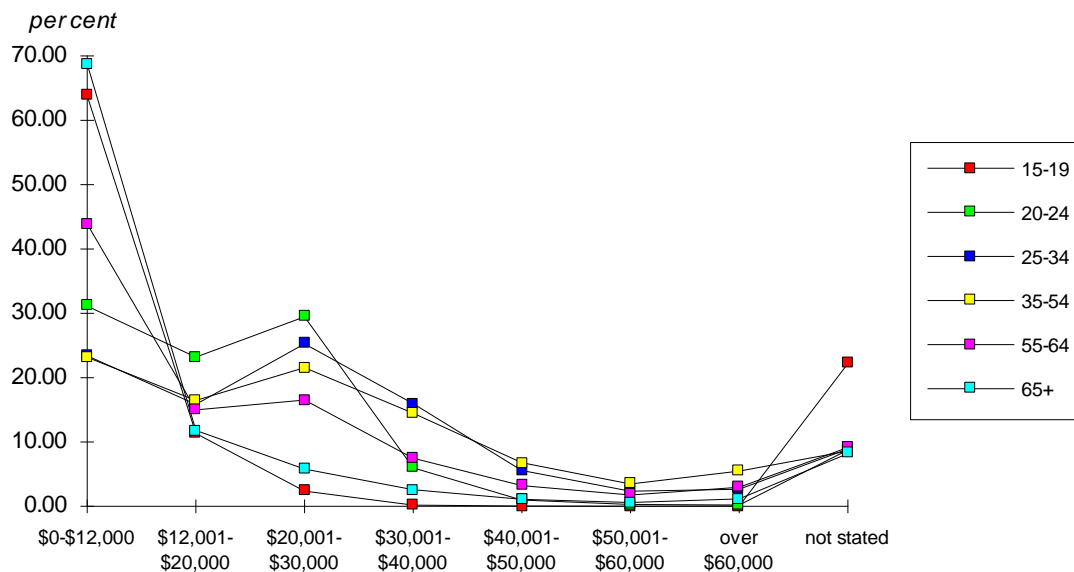
	aged 65+		persons aged 15+		prop of elderly
	persons	%	persons	%	%
\$0-\$12,000	275619	68.74	1026417	36.76	26.85
\$12,001-\$20,000	47330	11.80	438911	15.72	10.78
\$20,001-\$30,000	23279	5.81	516837	18.51	4.50
\$30,001-\$40,000	10352	2.58	280628	10.05	3.69
\$40,001-\$50,000	4422	1.10	113520	4.07	3.90
\$50,001-\$60,000	2395	0.60	55032	1.97	4.35
over \$60,000	4673	1.17	81109	2.90	5.76
not stated	32868	8.20	279643	10.02	11.75
<b>Total</b>	<b>400938</b>	<b>100.00</b>	<b>2792097</b>	<b>100.00</b>	

Source: ABS 1991, Cat.2722.1 table B28

The pattern of income distribution for older people is similar to people aged 15-19 years. The majority of these two age groups are concentrated in the lowest annual income that is below \$12,000. However, the median value of annual

income for older people (= \$8728) is lower than for people aged 15-19 years (= \$9404). Moreover, the median value for older people was less than one-half of the median value of annual income for all people aged 15 years and over (= \$18738). The patterns of income distribution for different age groups are shown in figure 4.4.

**Figure 4.4. Annual Individual Income - Sydney 1991**



Source: ABS 1991, Cat. 2722.1 table B28

## 4.5. Concluding Remarks

The concentration of older people varies across the Sydney region. The inner ring LGAs tend to have a stable elderly population, whilst the middle ring and the outer ring LGAs face more rapid growth. The highest growths of both the elderly and the total population occur in the outer ring of Sydney.

The proportion of older people who live in the family household were about 59.70 percent, whilst the other 40.30 per cent live in non-family households. Among the family households, living with relatives tends to be higher for elderly people in

comparison with other age groups. This indicates the importance of family relationship as one of the social resources for the elderly. For non-family households, the proportion of elderly who live alone or live in non-private dwellings are also higher than the average population. Living as a lone-person indicates preference for living independently, whilst live-in non-private dwelling occurs for people of advanced age.

The level of home ownership for the elderly, particularly for those who live in family households, tends to be higher than the other age groups. Among the elderly who live in the family households, more than 80 per cent of them own their houses or are still purchasing it. A lower figure of about 50 per cent occurs for elderly who live in non-family households. The proportion of elderly lone-person households who own or are purchasing the house was about 70 per cent of the total lone-person households. Those figures indicate the general condition of older people as a group of people who are asset-rich in relation to housing.

However, these assets do not balance with their income. Among the population aged 15 and over, the incomes of the elderly belong to the lowest group. More than two-thirds of older people have income below \$12,000 per annum. Moreover, the median value of annual income of people aged 65 and over was less than one-half the median value of annual income for the total population aged 15 and over. These figures show that the majority of older people face a vulnerable economic condition. Although they are asset-rich, their economic condition is vulnerable when compared with other age groups.



## CHAPTER 5

### HOME EQUITY CONVERSION SCHEME

The notion of maintaining older people at their home for as long as possible through a 'staying put' policy raises some implications about housing issues. From the point of view of housing policy, this option can cost the Government less but it is more cost-effective to support the living arrangements of older people rather than by providing other forms of accommodation. The introduction of the Home Modification and Maintenance Program, for instance, shows an effective use of Government funds by providing home maintenance assistance to frail elderly people and younger people with disabilities. On the other hand, from the householder's point of view, this 'staying-put' option provide greater opportunities to live independently.

Unfortunately, as indicated in Chapter Four many older people face financial problems due to declining incomes which can stop people from remaining at home. The introduction of home equity conversion schemes could be a possible solution to their financial problems.

Discussion of the home equity conversion scheme in this Chapter is divided into three parts. The first part deals with the basic types of home equity conversion, and the characteristics of their various arrangements. The second part describes the programs that are conducted in New South Wales, particularly in the Sydney region. Finally, the advantages and disadvantages of the programs are reviewed in the last part of this Chapter.

## 5.1. The Basic Types of Home Equity Conversion

As mentioned in the Introduction, the term home equity conversion refers to the process by which persons convert equity in their home into other usable forms of finance, without moving from their home. There are two major devices to convert home equity, namely, loan plans and sale plans. Under the loan plans, home owners borrow money against their equity in the home but still keep the legal ownership of the home. The sale plans, on the other hand, provide financial arrangements for home owners under the condition that the legal ownership is transferred to the agency. The similarity of both plans is that they still retain the legal right to occupy the premises to the 'home owners', hence the persons do not have to move. The basic types and the various models of financial arrangements that can be implemented under this scheme are presented in table 5.1.

**Table 5.1. Basic Types of Home Equity Conversion Scheme**

Loan Plans		Sale Plans
<i>Special Purpose Loans</i>	<i>Reverse Mortgages (RMs)</i>	
Deferred Payment Loan	Term Reverse Mortgages	Sale Lease Back
Property Tax Deferral	Split Term RM.	Life Estate
	Shared Appreciation RM.	

**Source:** Scholen, K. (1987), *Home-Made Money*, American Association of Retired Persons

### 5.1.1. Loan Plans

The basic characteristic of these plans is that home owners borrow an amount of money in advance against their equity in the home, and have to make the repayments specified in their loan agreement. This repayment can be made either at the end of the fixed loan period or deferred upon his or her death, sale or vacation of the premises. Interest rates are charged within the period of the

contract. The common types of loan plans are *special purpose loans* and *reverse mortgages*.

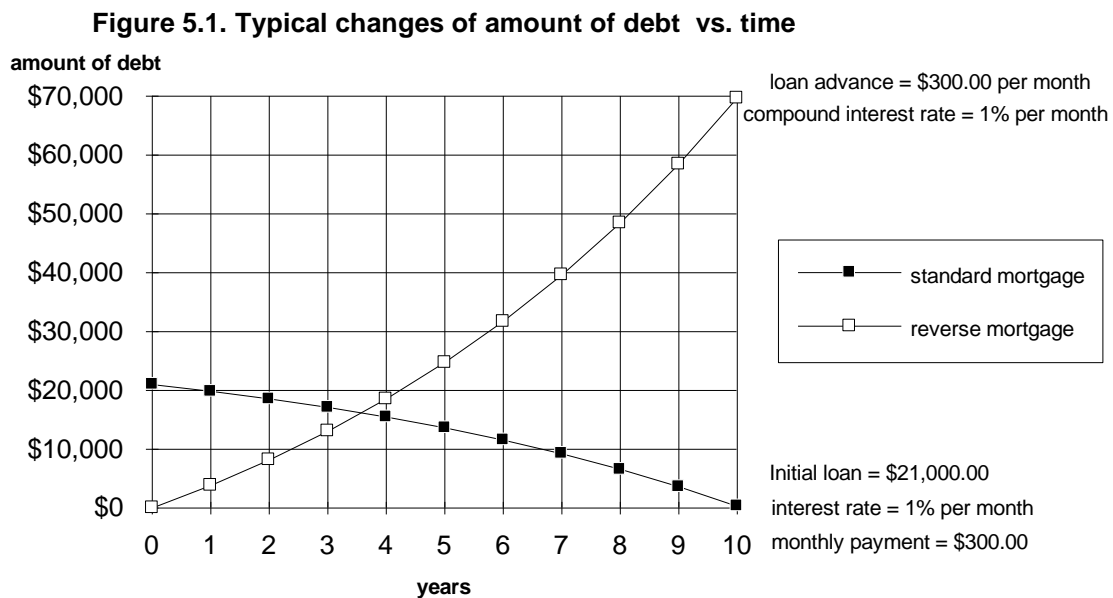
### ***Special Purpose Loans***

The *special purpose* loans are characterised by loans that provide for certain uses only. These loans are usually offered by government agencies or non-profit organisations. Although they may have different features, the programs commonly apply eligibility requirements such as a means test. Moreover, they may also have some restrictions on the amount of the loan regarding to the purposes required and the value of the equity. Repayments are often deferred until the borrower dies, moves permanently, or sells the property. Interest is usually applied at a low or moderate rate - it is intended as a subsidy to help low income people. Common examples of loans provided under this scheme are *deferred payment loans* and the *property tax deferral loans* that offer loans for home repairs and property tax payments respectively.

### ***Reverse Mortgages***

Reverse mortgage refers to a standard mortgage loan that is applied in reverse. Under the standard mortgage loan, a lump sum of money is borrowed to buy a house, which then followed by the payment in monthly instalments over a certain period. In this circumstance, the loan balance decreases continuously until the end of the mortgage period. Under the reverse mortgage the process generally occurs in reverse. The loan is offered in advance under monthly instalments and needs to be repaid in a lump sum at the end of the loan term. Moreover, interest is usually applied under a compound basis. As a consequence, in contrast to the standard mortgage, the loan balance under the reverse mortgage increases

exponentially over time. The typical changes of the debt over time for both standard and reverse mortgages are shown in figure 5.1.



Reverse mortgages have the potential to meet the various needs of home owners. The basic factors considered in calculating the regular loan are the value of the property; the interest rate; the home owner's age; and the length of the loan. However, in practice, the conditions of loans can vary widely subject to negotiation between the parties. In some cases, for instance, the borrowers can request a larger amount of cash advance at the first monthly instalment. This initial lump sum in turn can be used for other investments such as house renovation to increase the value of the property or as a reserve for urgent needs. The flexibility provided under reverse mortgages means that this loan scheme has the potential to meet a variety of needs.

There are several types of reverse mortgage that can be applied in housing market namely, term reverse mortgage, split-term reverse mortgage, and shared-appreciation reverse mortgage. With a reverse mortgage, the repayment is due



at the end of the fixed loan period. The total amount that can be borrowed is usually limited to a certain percentage of the equity of the home. Therefore, the borrower still retain a certain amount of equity after making repayments. The split term reverse mortgage, on the other hand, allows the deferral of repayment until the home owner dies, moves, or sells the property. The share-appreciation plan is the only reverse mortgage that provides monthly loan advances for as long as the home owner lives in the home and repayments are deferred until death, move or selling of the house. As a compensation for this open-ended income guarantee, some or all future appreciation of the house value is given to the lender. This plan tends to be more popular amongst "singles" who intend to spend the rest of their life at home.

### **5.1.2. Sale Plans**

The sale plans under home equity conversion involve the transfer of legal ownership as part of the transaction. The home owner in this circumstance retains occupancy rights. In other words, the home owner does not have to move after selling the house through these plans. The two most common types of sale plans are the sale-lease- back and the life-estate.

In the sale-lease-back plans, the home owner sells the home to a buyer or investor who then leases or rents it back to the home owner. The 'home owner' become a tenant or renter during the period of leasing. The leasing condition can be arranged either under a rent-free or a rental basis. Moreover, the term of leasing can be arranged under a lifetime lease basis or a fixed time depending on the agreement between the parties.

In the life-sale plan, a home owner sells the right of ownership upon death and remains as the owner of the house while alive. In other words, a home owner keeps a *life-estate* - that is ownership until death- and sells the *remainder interest* - that is ownership that begins upon death - to the investor. This plan is usually conducted by non-profit organisations. Moreover, the income received from this plan is lower compared to other forms of home equity conversion.

## **5.2. Home Equity Conversion Plans in the Sydney Region**

In Australia, the notion of the home equity conversion scheme was introduced by the Commission of Inquiry into Poverty, in 1975. In itsr main report, the Commission which also known as the Henderson Commission, suggests an annuity mortgages scheme to accommodate older people who wish to convert all or part of the value of their house into a cash income flow (Commission of Inquiry Into Poverty, 1975:245-246). However, due to a policy approach that was emphasised on the provision of infrastructure facilities, home equity conversion schemes did not get much attention until the mid 1980s. The condition then changed as the housing policy approach shifted to the autonomy approach. As discussed in Chapter Two this approach emphasised assisting older people to live independently in their own homes rather than providing residential services. As a consequence, the role of home equity conversion programs became more important as one of the options for enabling low-income aged home owners to stay in their homes.

In New South Wales, particularly in the Sydney region, home equity conversion plans are mostly conducted by the private sector. At present, there are two programs that are seriously marketed by private agencies, namely the Selstay Home Encashment Plans and the Money For Living Mortgages. The first plan is

conducted by Selstay Pty. Ltd., whilst the latter is conducted by the Advance Bank. Beside these two plans, there are also some plans conducted under Government initiatives, but many of them are provided for special purposes only (Wilson,1988:10). The only significant Government Program is the Aged Persons Home Update Loan conducted by the New South Wales Housing Department that assists older home owners to maintain the quality and standard of their homes. The Department of Social Security has also prepared a similar scheme, but this program will not be commenced until December 1993. Therefore, the following discussion will not include the program conducted by Department of Social Security. The characteristics of the first three home equity conversion programs are summarised in table 5.2.

**Table 5.2. Summary of Home Equity Conversion Plans in Sydney Region**

	<b>Selstay Encashment Plans</b>	<b>Money for Living Mortgages</b>	<b>Aged Persons Home Update Loan</b>
<b>Eligibility</b>	No limitation	Limited by income	Limited by income, age, and value of home
<b>Retain Ownership</b>	No	Yes	Yes
<b>Homeowner as debtor</b>	No	Yes	Yes
<b>Amount of Loan or Payment</b>	25-35% of present house value as initial payment The balance will be paid at the end of contract	Maximum of 20% of present home value for the first 5 years	\$5,000-\$60,000
<b>COSTS</b>			
<b>Interest rate</b>	Not applicable	0.5% above standard home loan rate ; compound interest; interest continue after fixed term	Low interest below market rate
<b>Repayment required</b>	Not applicable	At death, sell, move-out, or 12 months vacant the house	At death, sell, or move-out Sometimes non-repayable
<b>Other Costs</b>	Commission and legal fees Sellers must transfer ownership Rent can be arranged in special case	2% or \$600 establishment fees; legal and stamp duty fees	usually low fees
<b>BENEFITS</b>			
	Cash downpayment, and balance payments at the end of contract No longer responsible for structural repairs	Large cash advance; repayment is deferred until death, sell, or move-out	One-time lump sum of cash for repairing or improving home; repayment is deferred until death, sell, or move-out

### **5.2.1. The Selstay Home Encashment Plans**

Basically, these plans can be classified as home equity conversion sale plans. The plans provide a sale-lease back scheme which allows home owners to obtain access to part of the value of their home by selling it to an investor who then leases the home back to the former owner. The basic characteristic of the plans is that they divide the payment into two terms. The first payment is paid at the beginning of the contract, whilst the rest is offered at the end of the lease period without any interest. The lease period can be arranged as a life-lease term or fixed-term and depends on agreement between the parties. In most cases the plans do not require any rental payment, but a limited rent arrangement is available for people who wish to obtain a larger immediate cash payment.

Generally, the plans are limited to people over sixty; and in the case of couples, both people need to be at least sixty years of age. People under this age can also enter the plans, but they have to accept a lease-back for a fixed-term. In conducting the plans, the company acts as an agent of the vendors to find a buyer, and receives its fees from the normal real estate selling commission. Moreover, the company allows flexible arrangements which can be organised to meet the differing needs of older home owners.

#### ***Sale Plan with No Rent Payable***

Under this plan, the sellers retain fixed or lifetime occupancy, rent free, and receive an initial lump sum payment. The amount of this down payment can vary from 25 per cent to 35 per cent of the agreed sale price, and it is usually determined based on the age of the sellers and the value of the property. In some cases, a larger cash payment can be obtained by reducing the sale price.

The balance of the payment is payable interest free, and would be paid upon the death of the seller or permanent vacation of the premises. The first case relates to the lease-for-life arrangement, whilst the latter usually occurs under fixed term or maximum term arrangement. In the case of a lease-for-life couple, the payment of the balance will be made upon the death of the last person. Moreover, to ensure the payment, the balance is secured by a mortgage which is also interest free.

As mentioned previously, the condition of the contract is flexible. In special cases, the purchasers may agree to pay major structural repairs; but in general cases, all regular expenses such as water rates, electricity, insurance and maintenance costs are paid by the sellers. Moreover, most of the contracts contains a clause giving an option for the seller to reduce the term of lease. This clause allows the seller to vacate the premises earlier if it is intended to move to another place such as a retirement village. In that case, the seller is entitled to receive the balance of the purchase payment (see brochure attached in Appendix A1).

### ***Sale Plan with Rent Payable***

As in the previous plan, this plan offers a fixed or lifetime occupancy with an initial lump sum payment to the seller. The significance difference is that the seller pays a weekly rent in order to obtain a larger amount initial payment. The balance of housing payment can be paid upon the death of the seller or permanent vacation of the premises depending on the condition of the contract. Moreover, similar to the sale plan with no rent payable, this balance is secured by an interest-free mortgage.

### Example of Implementation

A typical example of the Selstay Home Encashment arrangement is presented in table 5.3. Under various down-payment arrangements, the present value of balanced payment offered at the end of the term decreases due to discount rate. For instance, a home owner who takes a down-payment of 25 per cent of the present house price of \$200,000 will receive a final payment of \$150,000 at the end of the term. The present value of this balanced payment will fall to about \$21,903 after 25 years. Moreover, the differences among the present values of a balanced payment under various down-payments tend to decline with the increasing term of the contract.

**Table 5.3. Example of Selstay Encashment arrangement**

Assumptions: House price: \$200,000		Discount rate = 8% per annum				
Downpayment (25%, 30%, 35%)	Present Value of Balanced Payment					
	5 years	10 years	15 years	20 years	25 years	
\$50,000	\$102,087	\$69,479	\$47,286	\$32,182	\$21,903	
\$60,000	\$95,282	\$64,847	\$44,134	\$30,037	\$20,443	
\$70,000	\$88,476	\$60,215	\$40,981	\$27,891	\$18,982	
	Differences in Future Value		(FV downpayment + Balanced - FV house)			
	5 years	10 years	15 years	20 years	25 years	
<i>Case1. Appreciation Value = 2% per annum</i>						
House value	\$220,816	\$243,799	\$269,174	\$297,189	\$328,121	
\$50,000	\$2,650	\$14,147	\$39,435	\$85,858	\$164,303	
\$60,000	\$7,344	\$25,737	\$61,156	\$122,468	\$222,787	
\$70,000	\$12,037	\$37,326	\$82,878	\$159,078	\$281,272	
<i>Case2. Appreciation Value = 4% per annum</i>						
House value	\$243,331	\$296,049	\$360,189	\$438,225	\$533,167	
\$50,000	(\$19,864)	(\$38,103)	(\$51,580)	(\$55,177)	(\$40,744)	
\$60,000	(\$15,171)	(\$26,513)	(\$29,859)	(\$18,567)	\$17,741	
\$70,000	(\$10,478)	(\$14,924)	(\$8,137)	\$18,042	\$76,226	
<i>Case2. Appreciation Value = 6% per annum</i>						
House value	\$267,645	\$358,170	\$479,312	\$641,427	\$858,374	
\$50,000	(\$44,179)	(\$100,223)	(\$170,703)	(\$258,379)	(\$365,950)	
\$60,000	(\$39,485)	(\$88,634)	(\$148,981)	(\$221,770)	(\$307,466)	
\$70,000	(\$34,792)	(\$77,045)	(\$127,260)	(\$185,160)	(\$248,981)	

Table 5.3 also shows the difference between the payment received by the home owners and the future value of the house. The positive value of this difference

means that a home owner gains a larger benefit from the plan rather than by selling the house in the future. For instance, under an appreciation rate of 2 per cent per annum, the housing value will increase from \$200,000 to about \$220,816 after 5 years. At the end of this term, the total value received by the home owner will be \$223,460 which consists of \$73,460 (=the future value of down payment) and \$150,000 of balanced payment. This means that the home owner can obtain a larger benefit of about \$2650 from the plan in comparison with benefit from selling the house in the future.

As shown in the table, the benefits from the plan tend to decrease with the increasing appreciation rate. On the other hand, these benefits increase with an increasing down-payment. A higher down-payment can reduce the risk of losing profit due to the higher appreciation rate of the housing price. However, as mentioned in the brochure of Selstay Home Encashment Plan, the larger down-payments can only be given if the home owner reduces the sale price.

### **5.2.2. The Money for Living Mortgages**

This scheme can be classified as split-term reverse mortgages. This plan is limited to people aged 68 years and over either single or couple. Beside home owners, people who still pay their mortgage are also eligible for this plan. The maximum loan offered under this plan is 20 per cent of the house value and the repayment is deferred until the last property owner dies, sells the home, or vacates the home for more than 12 consecutive months. Although the plan can provide the loan in monthly payments, in practice most clients prefer to receive lump sum payments.

After 5 years, a further loan can be provided for up to 20 per cent of the additional appreciation of the house value. Interest is charged at 0.5 per cent above the standard Advance Bank home loan rate, and accrued interest is paid when the loan is discharged. Establishment fees are charged either at 2 per cent of the loan amount or \$600, whichever is the greater. The cost valuing the property, legal fees and stamp duty are also charged to the home owner. Moreover, as the loan in this plan is not treated as income, in most circumstances it is not taxable under current law (see brochure attached in the Appendix A2).

### **Example of Implementation**

A typical example of the Advance Bank Money-for-Living Mortgage is presented in table 5.4. Under this plan, a home owner still retains the future appreciation value of the house. As a result, the benefit to the home owner can be measured from the remaining equity after the term ended. This value can be calculated by subtracting the future value of the house from the future value of the debt.

**Table 5.4. Example of Money for Living Mortgages arrangement**

<i>Assumptions: House price: \$200,000      Compound interest = 13% per annum</i>						
<b>Initial Loan</b>	<b>Repayment (debt)</b>					
( max. 20%)	5 years	10 years	15 years	20 years	25 years	
\$50,000	\$92,122	\$169,728	\$312,714	\$576,154	\$1,061,527	
<i>Case1. Appreciation Value = 2% per annum</i>						
House value	\$220,816	\$243,799	\$269,174	\$297,189	\$328,121	
Equity remain	\$128,694	\$74,071	(\$43,540)	(\$278,965)	(\$733,406)	
Interest paid (p.a.)		\$12,000-\$22,000	\$22,000-\$40,000	\$40,000-\$75,000	\$75,000-\$138,000	
<i>Case2. Appreciation Value = 4% per annum</i>						
House value	\$243,331	\$296,049	\$360,189	\$438,225	\$533,167	
Equity remain	\$151,209	\$126,320	\$47,475	(\$137,930)	(\$528,360)	
Interest paid (p.a.)		\$12,000-\$22,000	\$22,000-\$40,000	\$40,000-\$75,000	\$75,000-\$138,000	
<i>Case3. Appreciation Value = 6% per annum</i>						
House value	\$267,645	\$358,170	\$479,312	\$641,427	\$858,374	
Equity remain	\$175,523	\$188,441	\$166,598	\$65,273	(\$203,153)	
Interest paid (p.a.)		\$12,000-\$22,000	\$22,000-\$40,000	\$40,000-\$75,000	\$75,000-\$138,000	



As shown in table 5.4, the amount of debt increases dramatically with the increasing term. The future housing price, on the other hand, is also increasing, but not as rapidly as the loan debt. This is because the compound interest applied by the bank is usually higher than the increasing rate of the housing price in the market. The table also shows that highest profit occurs at high appreciation rates by applying a short term loan.

### **5.2.3. Aged Persons Home Update Loan**

This NSW Housing Department program can be classified as a special-purpose-deferred-payment loan. The plan is aimed at assisting aged home owners to maintain the quality and the standard of their homes. The loan is only available for housing maintenance and repairs. Moreover, there are some restrictions that apply to such a loan. The person must be at least aged 65 years; have a total household income of not more than \$325 per week; and the value of the house shall be less than \$300,000. In the case of a home owner still owing money on the home (still paying the mortgage), part of the loan must be used to pay out the first loan. Furthermore, the amount that can be borrowed shall be between \$5,000 and \$66,000 with fixed interest for the first ten years (leaflet February 1991). After this period, interest will vary depending on market conditions. All of those values are based on the index value for the year 1991 (see Appendix A3).

The repayment for this type of loan is usually deferred until the house is sold or upon the death of the last surviving borrower. However, other arrangements can be negotiated by the agreement between the parties. In some cases, for instance, the loan can be repaid at a rate less than 15 per cent of the annual income. Moreover, non-repayable loans can also be given in special cases.

The typical calculation for an Aged Persons Home Update Loan is similar to the Advance Bank Money for Living Mortgages. The significant difference is that the loan is only provided for housing-related purposes, particularly repairs and maintenance. Another difference is the lower interest offered in order to assist low-income aged home owners. The Hon. Jim Longley, Minister for Community Services, on his statement for the 1992-93 Budget, mentions that in 1991-1992, the program assisted 85 older people in New South Wales.

### **5.3. Obstacles to Implementation**

Generally, the main obstacles to the implementation of home equity conversion plans in Australia are the ambiguous tax and pension treatment factors (Wilson, 1988:12). Although there is a growing incidence of government interest in these schemes, the tax and pension treatments to this scheme tend to be applied case by case, not in a uniform basis. The reverse-mortgage loan is not taxable. Taxes are usually applied to the annuity payments received from the plans that are higher than the exempt levels of income. These also include the annual capital return on the annuity and the interest payments on a reverse loan used to purchase the annuity.

The lump sum payment received from the scheme may also affect pension eligibility due to the assets test. The new regulation on pensions assets test, for instance, applies the reduction of \$1.50 per week of pension income for every \$1000 of assets above the allowable level (Age Pension News, No.17, September 1993). Under this regulation, the asset limits are \$220,000 for a single home owner; \$300,500 for a single non-home owner; \$338,500 for a married home owner; and \$419,000 for a married non-home owner. A single home owner who wants to enter the HEC-sale plan, needs to consider the impact of the

increase in assets in the context of these limits. After entering the program, the assets limit would increase from \$220,000 to \$300,500. However, the increase in assets from selling the house may increase the total asset above this new assets limit, which will reduce pension benefits.

## **5.4. The Advantages and Disadvantages of Home Equity Conversion**

### ***Selstay Encashment Plan***

The length of the contract and the amount of the down-payment are the most important factors to be considered by the home owner. The longer period of payment, on the one hand, would bring long-term security, but it would offer a low lump-sum payment. On the other hand, the shorter period of payment offers higher initial lump-sum payment, but it also brings a higher risk after the term has ended. A larger amount of down-payment can reduce the losses associated with the high appreciation value of the house. Moreover, the initial lump-sum can be used for other investments such as saving a deposit or buying a deferred annuity contract from a life insurance company. The latter could be very helpful in supporting the home owner after the term has ended and the house has been vacated.

#### Advantages

- A home owner can continue to occupy the house after selling.
- A home owner still has a balance of payment after the term ends. This balance can be used to support the next living arrangements or can be left as a bequest.

#### Disadvantages

- Difficulties in obtaining agreement that accept all the conditions required by a home owner. The condition of the house and its location can become the constraints for the home owner when making a deal with the agency.

- Difficulties in preparing a legal contract due to the complexity of the aspects of the agreement
- As a tenant, a 'home owner' can not control the repairs and maintenance of the house.
- The increase of income from selling property could affect taxes and other income sources such as social security benefits.

In summary, it would seem that this plan is appropriate for older people who need additional income, don't like being debt, but are not fanatic about home ownership.

### ***Advance Bank Money for Living Mortgage***

#### Advantages

- A home owner retains the benefits of future appreciation in the value of the house
- Repayment can be deferred until death, move elsewhere or sell the property
- A home owner can remain in the house without having to repay the loan

#### Disadvantages

- The length of the loan term has a dramatic impact on debt levels due to interest charges
- If there is low appreciation of the value of the house, the owner may end up with only a small equity left in the house.

In summary, this plan is appropriate for older people who need additional income; but still want to retain the future appreciation of the value of their house.

### ***Home Update Loan - NSW Department of Housing***

#### Advantages

- A home owner can defer the repayment for longer due to the low interest rate
- Improvement on the house can be worth more than the amount owed on the loan if the future appreciation of the house is greater than the interest rate

### Disadvantages

- Limited amount of loan with limited purposes
- A deferred-payment loan against the property can make a home owner ineligible for another type of home equity conversion plan that might be needed in the future

This type of loan is appropriate for older people who urgently need home repairs, do not have serious problem on income; and want to retain a large part of their equity for their heirs.

## **CHAPTER 6**

### **THE POTENTIAL OF HOME EQUITY CONVERSION SCHEME**

This chapter examines the potential of home equity conversion scheme (HEC) as a housing option for low income-aged home owners in the Sydney region. A survey is conducted to identify the responses of aged-home owners on the various arrangements of HEC. The description of the survey, the profiles of the respondents and their responses on home equity conversion scheme are discussed in more detail in the following sections.

#### **6.1. Description of the Survey**

As mentioned in the chapter two, the target population of the survey were older people who own a house. Target respondents were selected from this population to represent the various age groups, living arrangements, and different localities in the Sydney region.

The information obtained from field survey can be divided into two main aspects, namely the profile of respondents and their opinion on home equity conversion scheme. The profiles of respondents cover the basic profiles of older people and some additional information on housing-related issues. Age, living arrangement, marital status and weekly income are the basic parameters that are covered in this survey. Moreover, some questions about older people's needs, opinion on housing environment, and their perceptions on moving were also asked to get a better picture about the profiles of older people. The importance of these variables has been discussed in chapter three.

People were asked about their knowledge of the various programs of HEC, and their values on the attractiveness of the programs. The responses of the elderly in these matters are used as indicators to measure the potential of home equity conversion as a housing option for low income older people.

Those data above were collected through a questionnaire survey that was conducted by face to face interview. The questionnaire is designed to cover older people's perception on home equity conversion program, whether they are involve in one of the HEC plans or not. Unfortunately, there is no respondent who is involved in the program that can be interviewed during the process of data collection. This lack of data has an impact only on the analysis of specific programs, and it does not influence the issue of the preferences of older people towards HEC plans. As a result, the older people's preferences can be analysed based on the survey results, whilst the analysis of the specific advantages and disadvantages of the actual programs is limited based on general observation of the participants and the author's own analysis. The example of the questionnaire and the summary of survey's results are presented in the appendix.

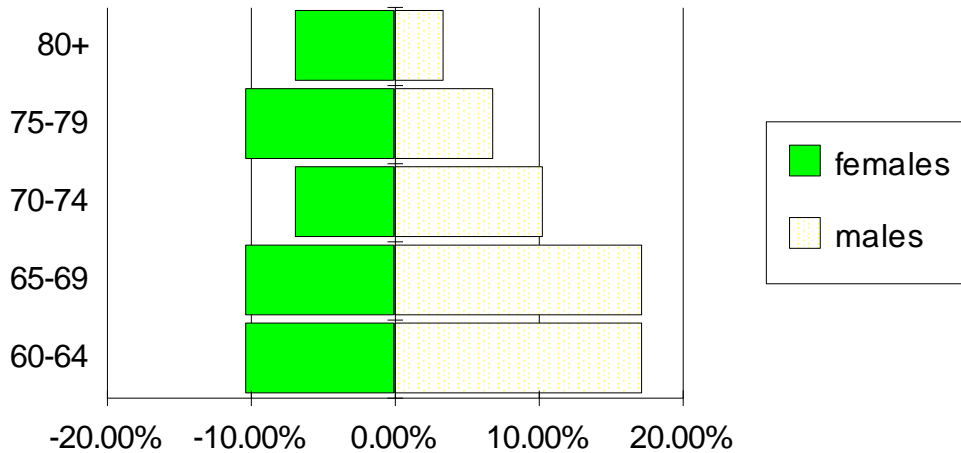
## **6.2. Profiles of the Respondents**

The number of respondents who involved in this survey was 29 persons. These respondents represent older people from various localities in Sydney. The distribution sample in term of location is presented in table 6.1. The proportions respondents who live in the inner ring, middle ring and outer ring are 41.38 per cent, 37.93 per cent, and 20.69 per cent respectively. Although they do not represent the distribution of older people in the Sydney region, those figures can be used to indicate the preferences of older people in relation to home equity conversion schemes.

**Table 6.1. Distribution of sample**

Sub-region	60-64	65-69	70-74	75-79	80+	Total	%
Inner ring	2	6	2	2		12	41.38
Middle ring	3	1	1	3	3	11	37.93
Outer ring	3	1	2			6	20.69
<b>Total</b>	<b>8</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>29</b>	<b>100.00</b>

**Figure 6.1. Age distribution**



The basic profiles of the respondents are summarised in table 6.2. The proportion of lone person households is 34.50 per cent, whilst the proportion of family households is 62.10 per cent. Due to the high proportion of lone persons, the proportion of married people among the respondents is only 48.28 per cent. This figure is lower than the proportion for Sydney of 53.19 per cent (1991 Census).

In the case of income, more than one-third of respondents belong to the lowest income group (= less than \$156 p.w.). Moreover, more than 85 per cent of respondents have an income below \$480 per week or \$26,000 per annum. Only one of the respondents who has income more than \$675 per week. These figures support the general trend of low income amongst older people that has been discussed in the previous chapters. Figure 6.2 shows the relationship between age and income of the respondents.

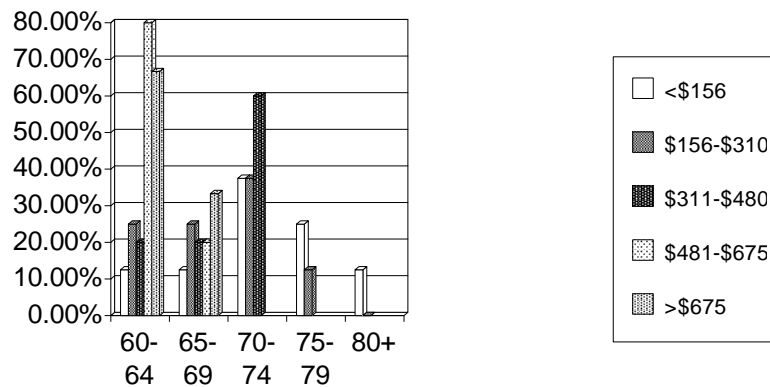


**Table 6.2. Basic profiles of the respondents**

Living arrangements	persons	%	Marital Status	persons	%
Spouse &rel.incl. chld.	7	24.14	Married	14	48.28
Spouse & non rel.	2	6.90	Never married	7	24.14
Spouse only	5	17.24	Separated	0	0.00
Rel. incl. chld.	4	13.79	Divorced	2	6.90
Non relatives	1	3.45	Widow	6	20.69
Alone	10	34.48			
Total	29	100.00	Total	29	100.00

Weekly income	persons	%	Age	persons	%
< \$156	10	34.48	60-64	8	27.59
\$156 - \$310	6	20.69	65-69	8	27.59
\$311 - \$480	9	31.03	70-74	5	17.24
\$481 - \$675	3	10.34	75-79	5	17.24
> \$675	1	3.45	80+	3	10.34
Total	29	100.00	Total	29	100.00

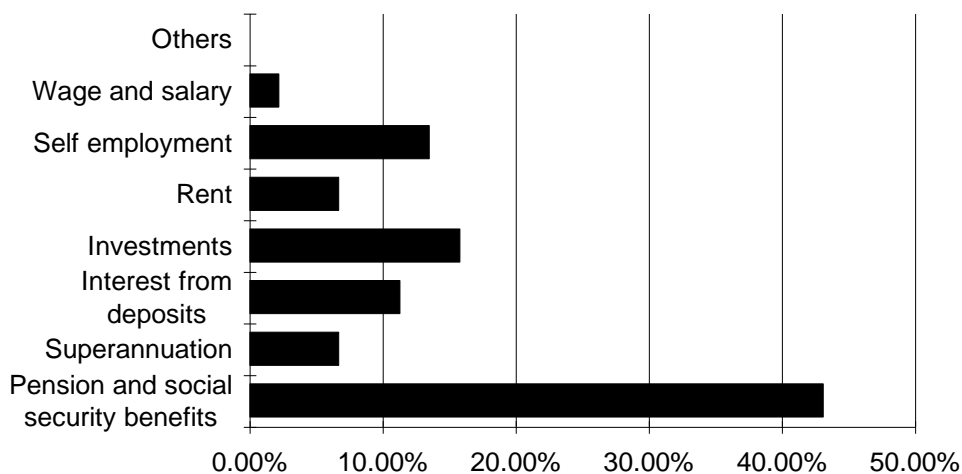
**Figure 6.2. Distribution of weekly income for each age group**



The results of the survey indicate the wide variety of income sources amongst the respondents. However, the majority of responses (=43.2 per cent) show that most of the respondents are relying on pension and social security benefits (see figure 6.3). Respondents of this group tend to have a single source of income only. Investments are the second largest sources of income for the respondents.

The proportion of this income source is 15.9 per cent. It is likely that respondents prefer to invest their money in more liquid finance sectors such as stock exchange rather than saving them as deposits. Interest from deposit is mentioned by 11.4 per cent of the total responses. Self employment is also popular among the respondents. Beside its function as income source, self employment can be seen as an effort to maintain activity levels. The lowest response is income from wage and salaries. There are only 2.3 per cent of the responses that mention wage and salary as an income source.

**Figure 6.3. Sources of income**



Housing environment is important for older people as their activities are mostly concentrated at home. There are four parameters of housing environment that are examined in this survey, namely, housing condition; access to shopping centre, hospital and other public utilities; access to public transportation; and relationship with neighbourhoods. The responses on these parameters are presented in table 6.3. The majority of respondents seem to be satisfied with the present housing condition. They also face no problems regarding access to public utilities and relationship with neighbourhoods. The only problem occurs on

the access to public transport. More than one-third (37.9 per cent) of the respondents mention that access to public transport in their areas is 'fair', whilst 17.2 per cent mention poor access to public transport. These negative responses are occur mostly in the outer ring areas.

**Table 6.3. Housing environment**

	very poor	poor	fair	good	very good	total
housing construction and design	0.00	3.45	24.14	72.41	0.00	100.00
access to shopping centre, hospital etc	0.00	0.00	13.79	68.97	17.24	100.00
access to public transport	0.00	17.24	37.93	34.48	10.34	100.00
relationship with neighbourhoods	0.00	3.45	34.48	58.62	3.45	100.00

There are four respondents who plan to move. The reasons for this are:

- ~ the high cost of housing maintenance (1 case),
- ~ want to live near the family (2 cases), and
- ~ move back to the house that now being rented (1 case).

There is no indication of choosing congregate housing, retirement villages or other living arrangements as a destination.

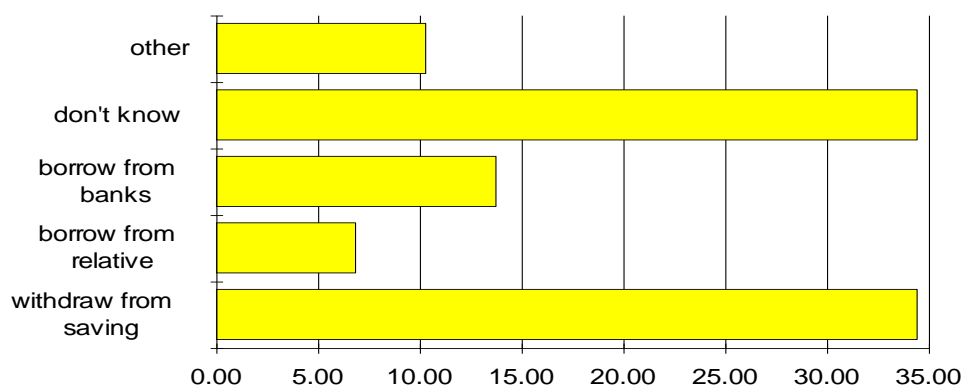
In responding the statements of older people's needs, assistance for income support tends to be the highest priority. Over 62 per cent of respondents agree with this notion. This response can be related to the low income level of the respondents. On the other hand, there are only 41.4 per cent who give a similar response about the needs for assistance with home maintenance and repairs. The other needs such as special housing and care facilities for older people, and information about service facilities are also important but not in the highest priority. Those responses are presented in table 6.4.

**Table 6.4. Elderly's need**

	absolutely agree	agree	disagree	absolutely disagree	don't know
Special housing and care services	3.45	96.55	0.00	0.00	0.00
Assistance for home maintenance & repairs	41.38	55.17	0.00	0.00	3.45
Assistance for supporting income	62.07	34.48	0.00	0.00	3.45
More information about service facilities	6.90	93.10	0.00	0.00	0.00

The question about where people would obtain money that was required urgently obtained a range of replies. Withdraw from savings is mentioned by 34.5 per cent of the respondent (see figure 6.4). The term of saving used here can be deposits saving or any other types of liquid investments. Another 34.5 per cent mention that they do not know what to do if they urgently need large amount of money. The majority of this group belong to the lowest income group that have single income source only. Borrowing money from banks is mentioned by the higher income respondents (=13.8 per cent), whilst borrow from relatives is mentioned by 6.9 per cent of the respondents. About 10.3 per cent of respondents mention that they would sell the house and move to a cheaper areas if they faced an urgent financial problem. This response is classified into 'other' in figure 6.4.

**Figure 6.4. Financial sources in urgent cases**



## 6.3. Responses on the Home Equity Conversion

### 6.3.1. Summary of the responses

As mentioned in the section 6.1., data that collected from the questionnaire survey cover the knowledge about the programs, preferences concerning the various options, and the attractiveness of the programs to older people. The responses of the those questions are summarised in the table 6.5.

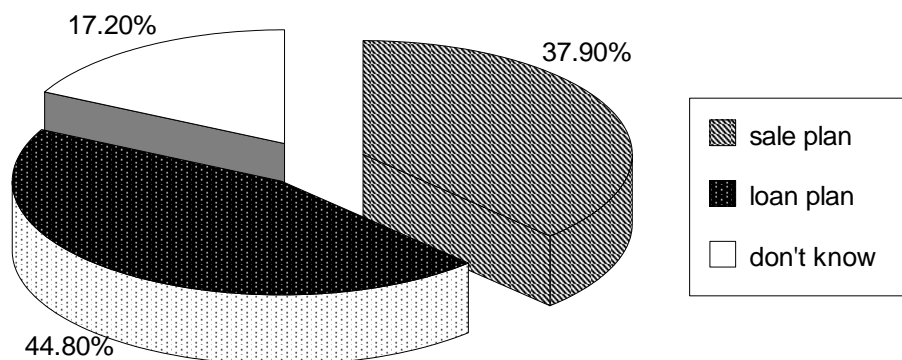
**Table 6.5. Summary of responses on HEC questions**

	Yes	No	Total	Numbers
<i>Knowledge on HEC program</i>	27.59%	72.41%	100.00%	11
<i>Involve on HEC program</i>	0.00%	100.00%	100.00%	13
<i>Interested with HEC program</i>	17.24%	82.76%	100.00%	5
<i>Preferences on types of plan</i>	sale plan	loan plan	don't know	Total
	37.93%	44.83%	17.24%	100.00%
<i>Preferences on types of payment</i>	lump sum	monthly	don't know	Total
	37.93%	58.62%	3.45%	100.00%

Among the respondents, of about 72.4 per cent do not know about any program of home equity conversion. The other 27.6 per cent know either the Advance Bank's Money For Living Mortgage or the Home Equity Conversion Loans from the Department of Social Security. The latter program has not yet commenced, but the information about it has been released by the Department of Social Security in the 'Age Pension News', September 1993.

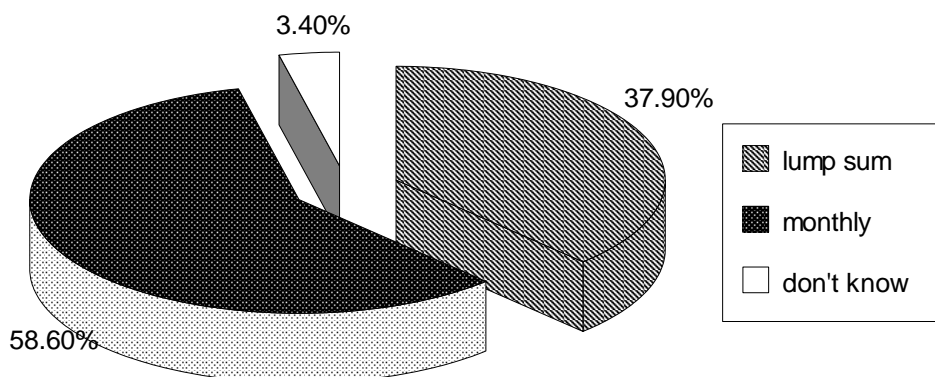
Figure 6.5 shows that the proportion of respondents who prefer loan plan are 44.8 per cent , whilst the proportion for sale plan are 37.9 per cent. This low level of difference indicates various preferences among the respondents. Moreover, it is likely that these preferences have a relationship with the basic profiles of the respondents. The discussion on these various preferences in relation to the basic profiles will be presented in the next section.

**Figure 6.5. Preferences on types of plan**



Furthermore, there are 17.2 per cent of respondents who do not want to make a choice between the two plans. As indicated in table 6.5, the majority of respondents (=82.8 per cent) are not interested in entering the plan.

**Figure 6.6. Preferences on types of payment**



The majority of respondents tend to prefer monthly payment rather than lump sum payment arrangement. Figure 6.6 shows that more than half of respondents (=58.6 per cent) think that monthly payment instalment is better, whilst there are only 37.9 per cent who prefer lump sum payment. The concern with taxes that

could be applied to the lump sum arrangement on the one hand, and the regular additional income of the monthly arrangement on the other hand, are likely to be the major reasons for this pattern of preferences.

Among the respondents who prefer the sale plan, of about 54.5 per cent prefer to obtain lump sum payment, whilst the other 45.5 per cent prefer a monthly instalment. This figure shows that the preference for monthly payment is still high even in the case of sale plan arrangements. Under the loan plan, the proportion of respondents who prefer monthly payment are 61.54 per cent, whilst those who prefer lump sum payments are only 38.46 per cent. The relationships between the types of plan and the payment are presented in table 6.6.

**Table 6.6. Types of plan vs. types of payment**

<i>Preferences on types of payment</i>	<i>Preferences on types of plan</i>			<b>Total</b>
	<i>sale plan</i>	<i>loan plan</i>	<i>don't know</i>	
lump sum payment	20.69%	17.24%	0.00%	37.93%
monthly payment	17.24%	27.59%	13.79%	58.62%
don't know	0.00%	0.00%	3.45%	3.45%
<b>Total</b>	<b>37.93%</b>	<b>44.83%</b>	<b>17.24%</b>	<b>100.00%</b>

The proportion of respondents who are interested in HEC program is about 17.2 per cent. Among them, of about 80 per cent are interested in the sale plan. Within this group of respondents, of about three-quarters prefer to sell the property, live in it for the remainder of their life, and leave a balance for the heirs. The other one-quarter prefer to sell the property, continue to live at home for a while, then move to another place with a larger balance. The other 20 per cent of those who interested in the scheme, mention that they want to enter the loan plan to obtain money for renovating the house. The respondents who choose loan plan, prefer to defer loan repayment, with the repayment being taken from their estate.

### 6.3.2. Relationships between responses and basic profiles

#### **Marital Status**

The relationships between marital status and preferences on home equity conversion scheme are summarised in table 6.7. The responses on the attractiveness of the program tend to be similar for the majority of groups, although HEC seems more popular amongst divorced and never married people. On the contrary, the home equity conversion is not seen as an attractive option for widows.

**Table 6.7. Preferences on home equity conversion by marital status**

Marital status	types of plan			types of payment			interested	
	sale plan	loan plan	don't know	lump sum	monthly	don't know	Yes	No
married	28.6%	64.3%	7.1%	57.1%	35.7%	7.1%	14.3%	85.7%
never married	42.9%	28.6%	28.6%	0.0%	100.0%	0.0%	28.6%	71.4%
separated	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
divorced	50.0%	50.0%	0.0%	50.0%	50.0%	0.0%	50.0%	50.0%
widow	50.0%	16.7%	33.3%	33.3%	66.7%	0.0%	0.0%	100.0%

**Age ;** Older people aged 75 years and over are not interested in HEC, mainly because they said they do not want to be involved in "a complicated situation".

**Income ;** The scheme is more popular amongst lower income group.

### 6.4. Concluding Remarks

The general preferences of respondents tend to choose monthly payment instalment rather than lump sum payment. This indicates that regular payment is important in most situations, whilst lump sum payment is only needed in the



urgent situation only. The majority low income respondents, and lone person households prefer this monthly payment more the other groups of respondents. For this group, regular additional income is important for supporting their living costs.

Table 6.8 shows the various reasons that given by respondents when choosing one of the home equity conversion scheme. Respondents who choose sale plan argue that this plan gives a larger amount of money and does not place them in debt. They also point out the higher risk with loan plan due to increasing interest rates. On the other hand, the respondents who choose loans, argue that this plan is more secure due to the retaining of home ownership.

**Table 6.8. Reasons to choose the home equity conversion plans**

Sale Plan	Loan Plans
- Larger amount of money (lump sum)	- More secure due to the retaining of ownership
- Lower risk in compare to the increasing interest of the loan plan	
- No debt or indebttness	

Table 6.9 shows the negative responses to home equity conversion program. These responses indicate the negative perception of the respondents that influencing their decision not to enter the program. The responses are ranked from the highest to the lowest frequencies. For example, only one response that mention 'have other financial sources' as the reason why they are not interested in entering the program. On the other hand, about four responses mention that they are not interested in the program because they 'don't want to have problems in the future'.

**Table 6.9. Negative responses to the home equity conversion scheme**

responses	frequency
Don't want to have problems in the future	4
Don't need much expenses	3
Complicated	3
Risky	3
Speculative and uncertain future	3
Agencies are looking for profit only	2
Want to leave the house for the heirs	2
Want to sell the house and move	2
Have other financial sources	1

## **CHAPTER 7**

### **CONCLUSION**

The Sydney region is experiencing a significant growth of older population that is likely to continue in the future. The declining fertility rate on the one hand, and the increasing life expectancy, on the other hand, are the basic factors that indicate this trend. Moreover, the growth of the older population is expected to increase rapidly and achieve its peak in the next decade as the baby boom generation enters their retirement period.

The growth in the concentration of older people varies across the region. This is largely because of different rates of development among the areas. Inner Sydney, for instance, experiences a relatively stable growth, whilst middle ring areas tend to experience the highest proportion of older people. Although fringe LGAs have a low proportion of older people, the majority of LGAs in outer Sydney demonstrated the highest growth of older population in the last decade. It is likely that these areas will face a much higher proportion of elderly over the next decade.

The decline of resources commonly faced by older people has a potential to create pressures for adjustments to their living arrangement. The principal constraints that limit the options on making those adjustments are the level of physical resources (health), social resources (family and society), and economic resources. Older people with better resources have better accessibility and wider options for making adjustments to their living arrangement. Beside those constraints, older people also rely on several criteria when making decisions about housing choice, namely, a need for independent living, social integration, and security of their living environment. Combinations and adjustments among

those criteria and constraints determine the various options of living arrangements amongst older people.

The high incidence of home ownership on the one hand, and low level of income among older people on the other hand, brings them to a condition of 'asset rich but income poor'. As a consequence, many of them becoming poor own their own house. The concept of home equity conversion can be seen as one of the potential option for supporting income without making people move from their dwellings. Under this scheme, older people can continue an independent lifestyle in the traditional home whilst they also obtain an income source.

However, the results of the survey indicate a resistance of older people to the concept of home equity conversion. Many of the respondents tend to have negative perceptions about the scheme. Although they agree with the aim of the program of supporting income, in practice, they are not interested in being involved with the program.

The high value placed on home ownership tends to be the major reason why many older people are not interested in this scheme. As indicated from their negative responses, most of them mention they are not interested in taking the risk associated with the program. In other words, they do not want to speculate on home ownership. It is likely that home ownership has a high value amongst older people. Furthermore, the majority of older people are likely to consider home ownership as being more important than an opportunity to generate extra income. As a result, home equity conversion schemes are seen more as disrupting their home ownership rather than a way of improving their standard of living.

The high value of home ownership can be understood due to the role of house as a central activity as people grow older. Older people who live in family households tend to value home ownership higher than the other types of households. It seems that they want to retain home ownership and leave the house as a bequest for their heirs. Nevertheless, there is some interest in the scheme particularly amongst low income person households.

# **APPENDICES**

# **APPENDIX A**

## **Brochures:**

**Selstay Home Encashment Plans**

**Advance Bank's Money For Living Mortgages**

**NSW DOH Aged Persons Home Update Loan**

# **APPENDIX B**

**Questionnaire Survey Sheet  
Responses of HEC Survey**



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