

INDUSTRY SUBMISSION

Productivity Commission Inquiry into
Caring for Older Australians

March, 2011

Disclaimer:

This submission was developed by the Author and is based on discussions with a range of market practitioners and research provided by various parties.

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Mission and Objectives of SEQUAL

The SEQUAL Mission is to ensure the professionalism of those who offer or distribute Equity Release products for senior Australians. SEQUAL is dedicated to maintaining professional standards of practice within the Australian equity release market.

The primary objectives of SEQUAL are to provide:

1. An industry forum for the collaborative development of an ethical and successful Seniors Equity Release market in Australia.
2. Effective consumer protection through a Code of Conduct and Guidelines by which members of SEQUAL and SEQUAL-accredited Equity Release Consultants (“SERC’s”) are expected to comply.
3. Representation for the constituent parts of the Australian Seniors Equity Release Market at the national level through a process of consultation with Government, Regulators and Consumer Agencies.
4. A central resource of consumer information on Seniors Equity Release and to enable efficient access to SEQUAL members.

SEQUAL’s Role as the peak Equity Release Industry Body

SEQUAL Membership imposes clear Code of Conduct obligations on product providers and the SEQUAL Industry Accreditation protocol requires appropriate standards of practice to be maintained by intermediaries providing product information and advice to consumers.

In this regard, the following attachments to this Submission should be noted:

- SEQUAL Code of Conduct
- SEQUAL Guideline –No Negative Equity Guarantee and Default Conditions
- SEQUAL Guideline –Equity Release Key Facts
- SEQUAL Guideline –Equity Release Proper Process

SEQUAL’s role as the peak industry body for the Australian Senior’s Equity Release market is well established. The various Industry Associations representing Finance Brokers and Financial Advisers, have endorsed the significance of SEQUAL’s contribution towards professionalism in each of their practitioner guidelines.

In particular, the following attachments to this Submission should be noted:

- Financial Planning Association Guidance Note
- Mortgage & Finance Association of Australia Guidelines
- CPA Australia Guidance Note for Advising on Reverse Mortgages

SEQUAL Code of Conduct

Each Member of SEQUAL agrees its equity release product(s) will adhere to, and be measured against the following Code of Conduct in dealing with Senior Australians their families and advisers. As a minimum, Members of SEQUAL shall:

1. Treat all Customers with respect and dignity
2. Participate in an ASIC approved External Dispute Resolution Scheme
3. Ensure that all products carry a clear and transparent 'no negative equity' or 'non-recourse' guarantee. That is, the Customer(s) will never owe more than the net realisable value of their property, provided the terms and conditions of the loan have been met
4. Strongly encourage Customers(s) to discuss the transaction with family members and to seek independent financial advice from a qualified financial adviser
5. Strongly encourage Customer (s) to discuss the transaction with Centrelink to ensure they fully understand the impact, if any, on their Centrelink entitlements
6. Ensure that the Customer (s) obtains independent legal advice performed by the solicitor of their choice. Prior to the completion of the transaction, the Customer (s) or their solicitor will be provided with full details of the benefits the Customer (s) will receive, and the obligations they are entering into
7. Clearly and accurately identify all costs to the Customer (s) that are associated with the transaction
8. Not assert or imply to a Customer(s) that the Customer(s) is obligated to purchase any other product or service offered by the Member or any other company in order to enter into an equity release product
9. Provide in writing, a fair and complete package of equity release documents, covering the benefits and obligations of the product. This will include making available to the Customer(s) and their advisers a tool illustrating the potential effect of future house values, interest rates and the impact of any capitalisation of interest where applicable
10. Ensure that all contracts are written to comply with Australian Consumer Law and the consumer protection provisions of any other relevant Legislation, Regulation or Code and ensure compliance, where applicable, with all Guidelines issued by SEQUAL.

SEQUAL Submission –Overview

In providing comment on the Productivity Commission’s Draft Report “Caring for Older Australians, SEQUAL Members, through this Industry Submission, have appropriately focussed on a key element of the report dealing with the challenge of **“Assisting Older Australians to pay for Care and Support”**.

In particular, this submission will address the following Productivity Commission recommendations:

- Establish an Australian Pensioners Bond Scheme
- Establish an Australian Government backed Equity Release scheme.

SEQUAL submits that it is appropriate that the impact of any Government participation in the Equity Release market be carefully considered and proper regard given to the existing industry structure.

The Australian Seniors Equity Release market operates on an efficient and ethical basis and a range of alternative equity release strategies are available in Australia. It is important that Government act in a manner that will preserve consumer choice rather than impose obligations on older Australians.

SEQUAL continues to encourage Government to consider the broader opportunities to support growth in the equity release market by ensuring that emerging regulation is not unduly restrictive and by extending existing Government initiatives aimed at improving funding in the home loan market to include equity release products.

SEQUAL supports the Productivity Commission’s observation that:

“Older Australians generally want to remain independent and in control of how and where they live their lives, continue to be connected and relevant to their families and communities, and be able to exercise some measure of choice if they require care”.

SEQUAL is guided by references in the Draft Report to the views expressed by those well placed to comment on Funding Aged Care, such as:

“Many participants to the inquiry, including consumer organisations, called for greater aged care contributions from those older Australians who had the financial capacity to do so, provided that those in need were protected. Co-contributions were also seen as a way of encouraging people to more closely assess the value of the care and support they were receiving”.

Equity release strategies are likely to emerge as a significant part of retirement funding and the current debate around the levels of Aged Care co-contributions needs to be carefully considered against that growing demand.

Home ownership is an important foundation for the retirement plans of many older Australians and it is important to ensure that soundly-based methods of releasing the wealth stored in the home are available and that consumers are well-placed to make fully informed decisions about their retirement funding.

Clearly, there is good reason to explore the options provided through equity release and the family home is now an intrinsic part of the planning process. It is vital that senior Australians have choices when considering the means by which they will meet the challenge of living longer and living well in retirement.

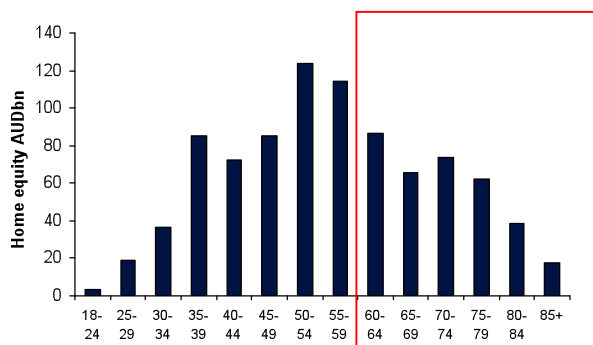
Property Ownership and the Wealth of Senior Australians

Many retirees have left the workforce poorly prepared via superannuation and other investments to fund their lifestyle until the end of their life. “Australia has a low household savings rate which results in our gross national savings rate rank of 17th out of the 28 OECD countries”.¹

In addition, more recent retirees, part of the so-called Baby Boomer generation, have increased expectations of their quality of life in retirement without significant liquid funds to enable this to be achieved.

*“History, some might say, has been kind to the baby boomers. They have enjoyed affordable housing, access to free education, often generous welfare benefits and frequently favourable employment markets. Now the baby boomers – those people aged between about 45 and 65 years – will have to respond in a very real way to the challenges of an aging population, where the consequences of their actions now and throughout their lives will have ramifications for the generations to follow”.*²

The good news is that the majority of Baby Boomers have achieved the “Great Australian Dream” of owning their own home. Total Home Equity (Owner Occupied) was \$887 billion, at the end of 2005. The Over 60s accounted for \$345bn (39%).



Source: Datamonitor

However, the absence of significant levels of savings (superannuation) and a concentration of wealth in an indivisible/illiquid asset (owner-occupied property), has made many older Australians “Asset-Rich but Cash-Poor”.

In the past, any retiree in this difficult position, had two choices; significantly reduce their living standards or sell the family home - often having to then move away from an established network of family and friends and in many cases reducing their age pension entitlements.

With the emergence of the Australian equity release market, retirees now have another option – tap into the stored wealth of their home.

¹ IFSA Submission to Australia’s Future Tax System Review. October, 2008

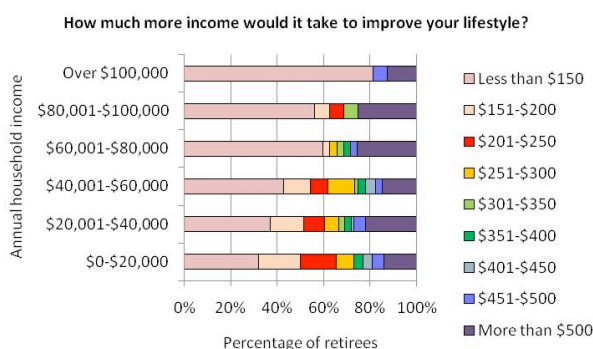
² AMP.NATSEM Income and Wealth Report. Issue No. 16. March 2007

Consultation – Assisting older Australians to pay for care and support

How Can Equity Release Assist Seniors?

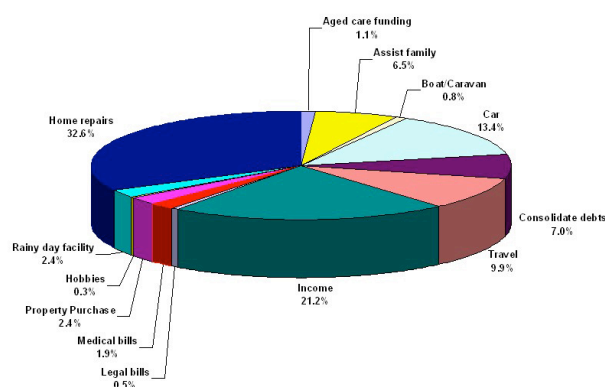
Even a modest draw down through equity release can provide the opportunity for senior Australians to significantly improve their standard of living in retirement.

The *'It's on the House' SEQUAL-RFI Reverse Mortgage Study*³ was conducted in October 2007 with phone interviews of 1000 Australians over the age of 60. This Study found that a modest increase to their income would significantly improve the lives of most retirees, with 50% of those surveyed indicating that as little as \$300 a month would be sufficient.



The Study also showed that a third of retirees (31%) expected to rely on their home as a source of retirement funding and revealed that baby boomers are not optimistic about their ability to fund their retirement, with a third fearing their funds would last only five to 10 years.

Equity Release is used for a variety of reasons by Senior Australians:



Source: ABN Amro Portfolio Analysis

Contrary to popular opinion, it is very rare that the proceeds are used for frivolous reasons. Some use equity release to supplement their retirement income, while others use it to renovate their home or access Care, in many cases to help them cope with a disability.

³ Report available for Download at: http://www.sequal.com.au/images/stories/sequal_rfi_study.pdf

How can Government Policy assist Older Australians to help themselves?

Senior Australians cannot be classified as a single homogenous group. For pension policy purposes, it may be appropriate to consider the distribution of Government assistance based on home ownership. This distinction is currently applied in the assessment of the Assets Test and in other benefits entitlement (e.g. Rent Assistance).

Home ownership is an important foundation for the retirement plans of many Senior Australians, and it is important to ensure that any method of drawing an income from the wealth stored in the home is soundly based so that Seniors understand the options available to them in order that they can make fully-informed decisions.

Consumer Education is crucial

SEQUAL welcomes the important work undertaken by the Australian Securities & Investments Commission (“ASIC”) in developing a general education booklet for Australian Seniors and providing valuable consumer information at its “Money Smart” website. However, much more needs to be done to educate older Australians about their retirement funding options. It should be a priority for Government to ensure that older Australians are not deprived of a better understanding of the role that Equity Release can play in meeting their needs and preferences in retirement.

Government funding of balanced financial literacy programs and counselling services is crucial. SEQUAL acknowledges the valuable contribution made by Centrelink’s Financial Information Service (“FIS”), and other agencies such as the National Information Centre for Retirement and Investments (“NICRI”). In particular, SEQUAL continues to encourage Government to maintain funding for NICRI’s Equity Release/Reverse Mortgage Information Centre.⁴

Opportunities to better target assistance to those in need

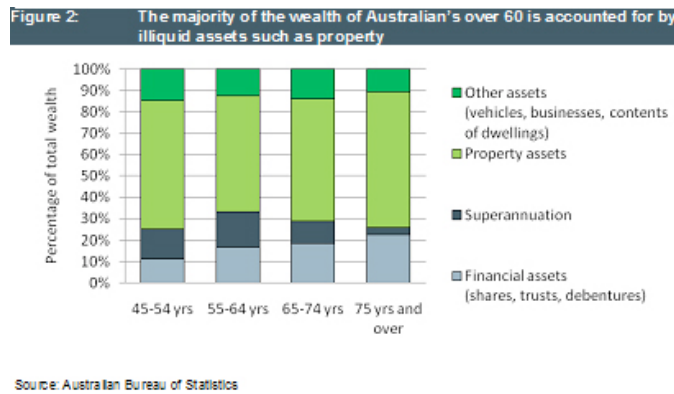
The Productivity Commission recommendations seek to address significant structural issues associated with funding an expanded aged-care system and correct inequitable arrangements. Whilst those who have the capacity will be expected to contribute towards the cost of their care, mandatory quotas and hardship provisions are proposed in order that older Australians will get access to the care they require.

The proposals for the development of both a Pensioners Bond Scheme and a Government-backed Equity Release scheme are aimed at enabling older Australians to access the wealth stored in their home in order to access care without needing to sell their home. However, if people decide to sell their home, they can avoid having the profit included in the Pensions means test by purchasing an Australian Pensions Bond.

It is critically important, however, that older Australians who have accumulated wealth through home ownership are not discriminated against, either as a consequence of their success or age. The primary residence of ordinary Australians is excluded for taxation purposes and many would argue that family home of older Australians should not be treated differently.

⁴ More Information can be found at: <http://reversemortgage.nicri.org.au>

In terms of targeted assistance, given the fact that well designed equity release options are now widely available to home-owning pensioners, consideration can be given to targeting additional Government income assistance to those most in need -pensioners without the safety net of owning the family home.



However, it is important to understand that some home-owning pensioners have homes which are not suitable for a equity release, possibly due to the low value of their home or its location, and this should be taken into account in any change of entitlements.

Equity Release users should not be penalised under the pension

The already overburdened Aged Care sector faces significant stress as a consequence of the impending demographic shift. Some estimates suggest that the system will more than treble to \$3.6 billion by 2050. It is clear that a comprehensive solution be found.

However, it is also important to ensure that pensioners who utilise equity release are not penalised by losing entitlements under the system.

It is in the national interest to encourage Senior Australians to use their assets sensibly in retirement, including the family home where needed. However, any reductions in benefits that result from accessing equity release will act as a deterrent to do so.

The current Centrelink assessment rules allow most retirees to access equity in their home without adversely affecting their benefits provided, they utilise rather than accumulate the funds accessed through equity release.

Consideration should be given to reviewing the gifting rules where the proceeds come from a currently exempt asset such as the family home.

Regulation of the Equity Release Market

Thirty Eight Thousand (38,000) senior Australians have released a total of \$2.7 billion of home equity.

SEQUAL is comprised of both Reverse Mortgage and Home Reversion Scheme providers that are either Authorised Deposit-taking Institutions (ADI's) or independent providers (Non-ADI's).

The SEQUAL Membership currently includes the following financial institutions:

Australian Seniors Finance	BankWest	Commonwealth Bank
Homesafe Solutions	Over Fifty Group	Police & Nurses Credit Union
Royal Bank of Scotland	St George Bank	Suncorp
Westpac		

SEQUAL is well-placed to influence the design and distribution of appropriate Senior's equity release products and the principles of the SEQUAL Code of Conduct provide a clear consumer benefit.

SEQUAL Policy Guidelines have introduced important consumer protection measures such as the preservation of the benefit of No Negative Equity Guarantee.

SEQUAL supports considered regulation that encourages the development of an ethical and efficient senior's equity release market in Australia. It is important, however, that Government have proper regard for the standards of industry practice that have been achieved by SEQUAL in consultation with Regulatory Bodies, Consumer Advocacy Agencies and Government itself, over an extended period of time.

*'ASIC welcomes industry moves to address consumers concerns about these products including the development of a code of practice by reverse mortgage providers industry group SEQUAL and the efforts of individual product providers to develop innovative provisions that mitigate some of the risks for consumers.'*⁵

The Chief Ombudsman of the Financial Ombudsman Service ("FOS"), Colin Neave AM recently noted that:

"Of the Thirty Eight thousand (38,000) existing reverse mortgage borrowers in Australia only five (5) have lodged a complaint and of those complaints, Four (4) were resolved through provider co-operation with no evidence of wrong doing on the part of the provider. What other industry can boast that level of consumer satisfaction"?

SEQUAL supports the Government's National Consumer Credit Reform⁶ initiative and welcomes the opportunity to actively participate in Phase Two of the Action Plan as a Member of the Equity Release Consultation Working Group.

⁵ Mr. Greg Tanzer -ASIC Executive Director of Consumer Protection, November 2005

⁶Download the Action Plan: http://www.treasury.gov.au/documents/1381/PDF/NCC_Brochure_02102008.pdf

Co-Regulation –Delivering Meaningful Consumer Protection

The Australian Investments and Securities Commission (ASIC) provides a helpful consumer guide “Thinking about Using the Equity in Your Home” wherein (at page 34) it advises consumers to: “Check with the broker or adviser to see if they have training and experience (for example Accreditation by SEQUAL) “

The new consumer website provided by ASIC also acknowledges the meaningful consumer protection provided by SEQUAL, as follows:

“We strongly recommend that you only use a lender that is a member of SEQUAL www.sequal.com.au (the industry association). All their members agree to minimum standards”.

This statement can be found at the following URL:

<http://www.moneysmart.gov.au/superannuation-and-retirement/income-sources-in-retirement/home-equity-release/reverse-mortgages#2>

Ensuring Quality Advice for Seniors

“In the relatively brief period before many baby boomers must begin to make concrete decisions about their retirement, most will have a series of choices to make about how they can maximise their retirement nest eggs.

*It is those boomers that take full advantage of the range of options available to them who are likely to be better off. Invariably, to get this right, people will need to access good financial advice”.*⁷

It is crucial that market practitioners are willing and able to provide reliable advice to Senior Australians. Over 1,500 professionals (Brokers, Planners, Accountants and Lawyers have successfully graduated as SEQUAL-accredited Reverse Mortgage Consultants (“SERCs”).

The SERC designation forms an important part of SEQUAL’s commitment to assisting consumers to easily identify and access properly-trained market practitioners who have gained Industry Accreditation. Regulators have acknowledged the contribution being made by industry and they have delivered on their undertaking to *“work with industry to promote best practice and identify and appropriately deal with risks for consumers.”*⁸

⁷ “Boomers Doing It For Themselves”, AMP.NATSEM Income and Wealth Report Issue 16. March 2007

⁸ ASIC Report 59 Equity Release Products –November, 2005. Download at:

[http://www.asic.gov.au/asic/pdf/lib.nsf/LookupByFileName/Equity_release_report.pdf/\\$file/Equity_release_report.pdf](http://www.asic.gov.au/asic/pdf/lib.nsf/LookupByFileName/Equity_release_report.pdf/$file/Equity_release_report.pdf)

⁹ Phase Three Structure –Issues Paper –December, 2009

http://www.supersystemreview.gov.au/content/downloads/structure_issues_paper/Phase_3_Structure.pdf

How Should Government Policy assist the Development of the Equity Release Market?

The Australian Equity Release market is both efficient and ethical. Older Australians have access to well-designed products both in the form of Reverse Mortgages and Home Reversion Schemes. A degree of competition between major banks and non-bank specialist providers delivers a robust environment for consumer benefit. It is therefore not necessary for a Government-backed equity release scheme to be developed.

However, there are a number of important ways in which the Australian Government can encourage the development of the equity release market and assist older Australians to access the stored value in their homes through legitimate equity release options.

Aiming to find the right balance between public funding and private funding for the care of older Australians (as stated in the key points on page 201 of the Productivity Draft Report), the Government should continue to focus on the existing Taxpayer-funded “Pay-as-You Go” subsidy pillar and “User-Pays” pillar, but also provide more support to strengthen a third funding pillar –Equity Release.

This support for Equity Release should focus on government backed, but privately operated, equity release schemes. There may also be a limited place for government operated schemes which fill the ‘gaps’ that are less attractive to private providers (i.e. small and gradual draw down of equity via the Centrelink Pension Loans Scheme or similar).

However, a Government-provided equity release scheme would face the same funding issues and costs as private providers and together with administration inefficiencies it would be unlikely to provide a scheme at a significantly lower cost.

While the Australian Government is already actively involved in providing information about equity release options via ASIC, a much broader education program is needed. There is a low awareness of equity release and equity release options. Likewise, there is low acceptability of equity release to fund aged care, and more so, to fund a better lifestyle in retirement.

Consumer information should address the entitlement of older Australians to access the equity in their own home as well as identify the options available for achieving this and describe the associated risks and benefits in an unbiased way. The information provided by ASIC is helpful but many consumer advocates argue that the national regulator is a poor channel for proactive information dissemination.

There are clear examples of effective and appropriate Government support for Equity release markets elsewhere in the world (in particular, the USA and United Kingdom).

Some Government initiatives are likely to deliver better outcomes for older Australians. For example, the Australian Government could encourage greater competition in the market and increase consumer confidence by providing a No Negative Equity Guarantee (similar to the US market structure), rather than actively compete with industry participants by sponsoring an equity release product. Depending on how this would affect private provider provisions, it may also improve the pricing of equity release products.

Government Response to Capital Market Disruption.

Since the deregulation of the financial system, the Residential Mortgage-Backed Securities (RMBS) market has provided an important source of funding for new and smaller mortgage lenders to compete with the major banks. However, the recent disruption to the international capital markets has adversely impacted liquidity in the RMBS market.

The Treasurer announced on the 26th September, 2008 that the Australian Office of Financial Management (AOFM) would purchase Australian RMBS as part of the Government's commitment to strong and effective competition in Australia's mortgage markets.

This action followed legislation passed by the Rudd Government in June, 2008 which expanded the range of high-quality assets in which the AOFM can invest. At the time, the Treasurer stated "The Rudd Government is committed to ensuring that Australia's financial markets continue to perform strongly and provide Australian households with a wide range of financial products at competitive prices"

In the past, few Australian Reverse Mortgage providers have accessed the RMBS market (RV-RMBS issuance) in order to fund their reverse Mortgage portfolios, as they have been able to readily access funding through bank-provided credit facilities. In more recent times, the availability of bank funding has tightened as a consequence of the impact of the global credit crisis.

In this environment, the RMBS market could be an important source of funds for Reverse Mortgage providers. However, the Selection Criteria established for the AOFM to invest in RMBS does not provide for Reverse Mortgage transactions.

The combination of these factors has constrained the ability of some Reverse Mortgage providers to access funding and the effect of these conditions is that a number of SEQUAL Members have either withdrawn from the market or have significantly scaled-back their participation.

Given the public interest issues associated with the emergence of an efficient Senior Equity Release market in Australia, consideration must now be given to a timely and effective Government Initiative aimed at preserving competition within the Australian Equity Release market and ensuring that Senior Australians have choices when considering Senior's Equity Release as a means by which to assist them to meet their retirement funding needs.

It may be appropriate to apply existing Government Initiatives (from both Australia and Overseas) to ensure that the Australian Equity Release market is both competitive and stable. For example:

- An extension of the Selection Criteria for investment by the AOFM in RMBS to provide support for Reverse Mortgage RMBS issuance (RV-RMBS)⁹,
- The provision of a Government Guarantee to stabilise bank-provided funding¹⁰ and,
- Government Insurance (Lenders Mortgage Insurance) of Reverse Mortgage transactions.¹¹

SEQUAL is committed to working with the Australian Government to assist Senior Australians to meet the challenge of Living Longer and Living Well.

⁹ Arrangements for the Purchase of RMBS: http://www.aofm.gov.au/content/notices/09_2008.asp

¹⁰ The Australian Government Guarantee Scheme: <http://www.guaranteescheme.gov.au/>

¹¹ The US Home Equity Conversion Mortgage (HECM): <http://www.hud.gov/offices/hsg/sfh/hecm/hecmabou.cfm>

The Role of the Superannuation Industry

The recent disruption to the international capital markets has constrained the ability of some Reverse Mortgage providers to access funding and the effect of these conditions is that a number of SEQUAL Members have either withdrawn from the market or have significantly scaled-back their participation.

Given the public interest issues associated with the emergence of an efficient senior's equity release market in Australia, consideration must now be given to a timely and effective response from the superannuation industry.

SEQUAL supports the view expressed in the Issues Paper provided by the Review Panel that encourages super funds to identify and support innovative products such as Reverse Mortgages.

"... is there any reason why super funds shouldn't be able to compete in the Reverse Mortgage market (as this seems peculiarly compatible with the retirement income function of super funds?"⁹

Attachments:

Attachment A:

SEQUAL Guideline –No Negative Equity Guarantee

Attachment B:

SEQUAL Guideline –Key Facts

Attachment C:

SEQUAL Guideline Equity Release Proper Process

Attachment D:

Financial Planning association Guidance Note

Attachment E:

Mortgage & Finance Association of Australia Guidelines

Attachment F:

CPA Australia Guidance Note for Advising on Reverse Mortgages