



Media release

14 February 2008

WHAT DO RETIREES REALLY KNOW ABOUT RETIREMENT FINANCES AND REVERSE MORTGAGES?

First comprehensive study of Retirees' attitudes to equity release launched today

SEQUAL calls on government and media to help educate seniors to understand their options to release equity to fund their retirement'

Lack of financial education about how to deal with their 'asset imbalance' is holding seniors to ransom in their retirement, according to the first comprehensive study into the attitudes of over-60s to funding their retirement and releasing the equity in their homes.

The '*Its on the House*' SEQUAL-RFI Reverse Mortgage Study, found a third of retirees (31%) expected to rely on their home as a source of retirement funding. However, most thought they would be forced to downsize to release equity and did not understand other financial options.

One thousand Australian aged over 60, including both the 'baby boomer' and 'builder' generations, were interviewed nationally by Retail Finance Intelligence (RFI), retail and private banking research specialists. The study was commissioned by the Senior Australians Equity Release Association of Lenders (SEQUAL), the peak body covering reverse mortgage lenders.

"There has been a lot of debate about consumer protection for retirees taking out financial products, but this is the first time that retirees themselves have been independently canvassed in such numbers on this issue," says Kieren Dell, executive director, SEQUAL.

Overwhelmingly, the study revealed that retirees are not sure what options are available to them, to allow them to release equity from their home.

"Buying a home is often the largest investment that the average Australian will undertake. Retirees do not understand how they can access some of that investment without selling up," says Dell.

According to the SEQUAL/RFI Study, 78% of over-60s had heard of reverse mortgages, but as little as 40% understood the basic premise of the product.

Many feared myths and misconceptions about reverse mortgages including seniors falsely believing they would lose their pension benefits or home title.

MORE

Others were frightened by negative mainstream media coverage regarding reverse mortgages.

In fact, a quarter of seniors (28%) surveyed held the incorrect belief that a reverse mortgage involved selling a portion of the house to the bank in exchange for money, or that the loan involved compulsory repayments until the borrower passes away.

In addition, many seniors had a poor understanding of how to financially plan for future aged and health care costs, with 45% unaware of the entry costs and fees for aged care.

The importance of financial planning was re-iterated by the 'asset imbalance' faced by most retirees.

At least 60% of retirees' wealth is held in property assets, predominately the family home. The SEQUAL-RFI study confirmed seniors hold little cash wealth to fund their day-to-day living. In fact, 60% of over-75s had no superannuation savings at all. Neither did 19% of 60-64 year olds.

Worse, 20% of retirees interviewed were still paying off their home and a third of those yet to retire expected to take an existing mortgage into their retirement, requiring them to make monthly repayments whilst on a potentially lower fixed income.

"Builders and boomers largely missed out on the 'superannuation guarantee' scheme so have not built up their superannuation savings during their working years to the necessary level to fund a long retirement. For many of these people, their home is their biggest financial asset, as well as being a lifestyle asset. It is absolutely critical that they understand all their options for releasing the equity from their home to fund their retirement if they need to" says Dell.

The study showed 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.

"Not surprisingly, 65% of retirees rely on the aged pension for their primary income. With our current ageing population and rapidly increasing health costs, this poses a significant economic problem for Australia's future," says Dell.

The study showed 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.

"It is ridiculous for retirees to face selling their home simply to get an extra \$300 a month. Not only will they incur costs associated with the sale, once they turn a tax-free and exempt asset into cash, they may attract financial penalties and loss of benefits," warns Dell.

"While downsizing may be the best option for many, it is important that retirees take this big step for the right reasons and understanding all the implications of their decisions."

MORE

"In contrast, a well-structured reverse mortgage that pays retirees in instalments can provide peace of mind for the future so seniors can avoid the trauma of selling the family home and potentially losing their community networks," says Dell.

“SEQUAL is calling on the government, consumer organizations and the media to continue to work together with SEQUAL to educate and empower retirees on how to safely use reverse mortgages and overturn the misconceptions and help them to make rational decisions on how to fund their retirement safely.”

For more information on reverse mortgages, visit www.SEQUAL.com.au.

ENDS

FOR AN INTERVIEW CONTACT ALLISON LEE OR ELISSA CALLAGHAN AT IMPACT COMMUNICATIONS AUSTRALIA ON (02) 9519 5411/ 0410 485 131

Note to editors:

SEQUAL (Senior Australian Equity Release Association of Lenders) represents reverse mortgage lenders and provides consumer safeguards. Covering 95% of the industry, SEQUAL members voluntarily agree to adhere to a strict code of conduct and insist on independent legal advice for all borrowers. A ‘No Negative Equity Guarantee’ is a mandatory component of SEQUAL’s code of conduct. It guarantees that borrowers can never owe more than the value of their home.

Reverse mortgages allow retirees to borrow against the equity in their home to self fund their retirement. The amount that can be borrowed generally depends on the age of the youngest borrower. Repayment, including all interest and charges, is not due until the last borrower passes away, they sell the home or, in some circumstances, when the home is permanently vacated by all borrowers.

Retail Finance Intelligence (RFI) is a Sydney-based research business delivering strategic insight and analysis through the use of primary research. It specializes in providing advice to the retail banking and private banking sector.