



LEVERAGING EQUITY IN RESIDENTIAL PROPERTY TO PROVIDE RETIREMENT INCOME

September 2023



Vishaal Baulkaran

Associate Professor of Finance

Dhillon School of Business

University of Lethbridge

Tel: 403-329-2074

Email: vishaal.baulkaran@uleth.ca

Pawan Jain

Interim Chair and Associate Professor of Finance

Department of Finance, Insurance, and Real Estate

Virginia Commonwealth University

Email: pawan.jain@mail.vcu.edu

Table of Contents

Executive Summary	8
Introduction	10
Literature Review	11
Evidence from the United State	11
Evidence from Europe and the UK	12
Evidence from Australia and New Zealand	13
Cross-country Comparison	13
HERS	14
Various HERS Options	15
Reverse Mortgage	15
Home Equity Line of Credit (HELOC)	16
Second Mortgage (Non-HELOC)	17
Refinance Your Home	17
Selling and Moving to a Smaller Owner-Occupied Dwelling (Downsizing)	17
Sell the House and Move to a Rental Dwelling	18
Sell the House and Rent It Back (Sale and Lease Back)	18
Data and Results	18
Consumer and Survey Results	18
Potential Use of Home Equity	24
Retirement	26
Attitudes toward Home	31
Beneficiary	35
HERS	38
Financial Planner	49
COVID-19 Impact	53
Financial Planner Results	57
HERS	61
Reverse Mortgage	63
Financial Literacy—Reverse Mortgage	67
Sell-and-Rent Option	72

Financial Literacy: Sell-and-Rent Option	76
Sell and Downsize	78
HELOC	82
Traditional Mortgage	86
Behavioral Bias	90
The Impact of COVID-19	95
Conclusions and Recommendations	97
Appendix A	99
Appendix B	100
References	105
List of Tables	
Table 1: Descriptive statistic	18
List of Figures	
Figure 1: Marital status	19
Figure 2: Breakdown of the respondents by province	19
Figure 3: Income distribution	20
Figure 4: Education	20
Figure 5: Employment status	21
Figure 6: Expected number of years in retirement	21
Figure 7: Primary income source	22
Figure 8: Secondary Source of Income	22
Figure 9: Current financial position	23
Figure 10: Financial knowledge	23
Figure 11: Decision makers	24
Figure 12: Access home equity	25
Figure 13: Access home equity by gender and location	25
Figure 14: Access home equity: Retired versus not retired	25
Figure 15: Factors influencing retirement	26
Figure 16: Comfort with retirement funding plan	26
Figure 17: Funding plan by location and financial planners	27
Figure 18: Comfort with retirement plan: Retired versus not retired	28

Figure 19: Retirement funding plan	28
Figure 20: Exhaust savings during retirement	29
Figure 21: Exhaust savings by employment type	29
Figure 22: Extra income during retirement	30
Figure 23: Years living in the home	32
Figure 24: Staying in current home during retirement	32
Figure 25: Pass home to children	32
Figure 26: Home to fund retirement	33
Figure 27: Home as a safety net	33
Figure 28: Role of current home in funding retirement	34
Figure 29: Circumstance to use home equity to fund retirement	35
Figure 30: Beneficiary	35
Figure 31: Beneficiary expectation	36
Figure 32: Beneficiary expectation: Retired versus not retired	36
Figure 33: Proportion of home left to beneficiaries	37
Figure 34: Proportion of home left to beneficiaries by location	37
Figure 35: Proportion of home left to beneficiaries: Retired versus not retired	38
Figure 36: Familiarity with HERSs	38
Figure 37: HERS to fund retirement	39
Figure 38: Consider using HERS	40
Figure 39: Use of funds from HERS	40
Figure 40: Maximum amount accessed via home equity	41
Figure 41: Maximum amount accessed via home equity by gender and financial planners	42
Figure 42: Maximum amount accessed via home equity by location	42
Figure 43: Reasons for not considering HERS	43
Figure 44: Cost reduction and HERSs	44
Figure 45: Friends/family and HERSs	45
Figure 46: Home equity recommended by financial planner	45
Figure 47: Positive media coverage and HERSs	46
Figure 48: Government and HERSs	46
Figure 49: Government guarantee for the right to live in home	47
Figure 50: Likely to use reverse mortgage	48

Figure 51: Reverse mortgage complexity	48
Figure 52: Financial planner	49
Figure 53: Financial planner's knowledge of HERSs	49
Figure 54: Discuss HERSs with financial planner	50
Figure 55: Discuss home equity use with financial advisor	50
Figure 56: View home as safety and comfort	51
Figure 57: Emotional attachment to home	52
Figure 58: House as a separate asset	52
Figure 59: House value increase	52
Figure 60: COVID-19 changed outlook of home	54
Figure 61: COVID-19 impact on retirement income	54
Figure 62: COVID-19 impact on retirement plan	54
Figure 63: COVID-19 impact on standard of living	55
Figure 64: Age of financial planners in the sample	55
Figure 65: Financial planner by province	56
Figure 66: Income	56
Figure 67: Income by location	57
Figure 68: Education	58
Figure 69: Licenses and professional certifications	58
Figure 70: Areas of specialization	58
Figure 71: Experience as financial planner	59
Figure 72: Compensation	59
Figure 73: Financial planning advice about funding retirement income using home equity	60
Figure 74: Preferred option to meet extra retirement income	60
Figure 75: HERSs	62
Figure 76: HERS most likely recommended	62
Figure 77: Factors considered when making recommendations	62
Figure 78: Providing advice about reverse mortgage	63
Figure 79: Reverse mortgage	63
Figure 80: Reverse mortgage as a positive tool that can improve clients' retirement security	64
Figure 81: Reverse mortgage is harmful to seniors' retirement security	64
Figure 82: Reverse mortgage costs	65

Figure 83: Clients do not want to use reverse mortgage	65
Figure 84: Reverse mortgage is too complicated to explain to the client	66
Figure 85: Reverse mortgage too risky	67
Figure 86: Interest payment on reverse mortgage	68
Figure 87: Reverse mortgage loan balance	68
Figure 88: Foreclosure process	68
Figure 89: Property taxes or insurance payments	69
Figure 90: Reverse mortgage cash distribution	69
Figure 91: No outstanding mortgage balance	70
Figure 92: Home underwater	70
Figure 93: Reverse mortgage early in retirement to support a retirement plan	71
Figure 94: Reverse mortgage would result in a taxable gain to the homeowner	72
Figure 95: Knowledgeable about sell-and-rent option	73
Figure 96: Sell-and-rent option as a positive tool to improve clients retirement security and income	73
Figure 97: Sell and rent harmful to retirement security	74
Figure 98: Costs of sell and rent	74
Figure 99: Clients do not want to use sell-and-rent option	75
Figure 100: Sell-and-rent option is too complicated to explain	75
Figure 101: Riskiness of sell-and-rent option	76
Figure 102: Responsibility for maintenance, property taxes, and other property-related expenses	77
Figure 103: Moving costs, staging fees, etc. associated with sell and rent	77
Figure 104: No implications associated with sell and rent	77
Figure 105: Knowledgeable about sell-and-downsize option	79
Figure 106: Sell and downsize as a positive tool to improve retirement security and income	79
Figure 107: Sell and downsize is harmful to clients' retirement security and income	80
Figure 108: Sell and downsize costs are the primary reason for not recommending it	80
Figure 109: Clients do not want to use sell-and-downsize option to fund retirement income	81
Figure 110: Sell and downsize is too complicated to explain to the client	81
Figure 111: Riskiness of sell and downsize	81
Figure 112: Costs not associated with sell-and-downsize option	82
Figure 113: Knowledge of HELOC	83

Figure 114: HELOC is a positive tool that can improve clients retirement security and income	84
Figure 115: HELOC harmful to clients	84
Figure 116: HELOC costs is the primary reason for not recommending it	84
Figure 117: Clients unwilling to use HELOC	85
Figure 118: HELOC is too complicated to explain to the clients	85
Figure 119: HELOC is too risky to the clients	85
Figure 120: Lenders cannot demand that you pay the full amount at any time	86
Figure 121: Knowledge about traditional mortgage	88
Figure 122: Traditional mortgage is a positive tool to improve retirement security and income	88
Figure 123: Traditional mortgage harmful for clients' retirement security	88
Figure 124: Costs of traditional mortgage	89
Figure 125: Clients do not want to use traditional-mortgage/second-mortgage option to fund retirement income	89
Figure 126: Traditional mortgage is too complicated to explain to the client	89
Figure 127: Traditional mortgage is too risky to clients' retirement security and income	90
Figure 128: Additional borrowing	90
Figure 129: House as a separate asset	91
Figure 130: How easy do you think it was to predict the 2008 financial crisis?	92
Figure 131: Future returns	92
Figure 132: Asset-picking ability	92
Figure 133: Drop in investment (loss aversion)	93
Figure 134: Sell stocks with recent price increase (disposition effect)	94
Figure 135: Index rise and reverse (gambler's fallacy)	94
Figure 136: Increase holdings and trading volume (herd behavior)	94
Figure 137: COVID-19 and client meetings	95
Figure 138: COVID-19 and clients' willingness to use home equity	96
Figure 139: COVID-19 and retirement income	96
Figure 140: COVID-19 and retirement planning	96
Figure 141: COVID-19 and living standards during retirement	97

Executive Summary

This report investigates why, despite the familiarity with home equity release schemes, only a handful of individuals benefit from them to pay for financial hardships or funding retirement shortfalls. We explore the different alternatives for leveraging residential property to help retiring Canadians fund their retirements. We also analyze the costs and benefits associated with each of the proposed options. In the process, we review the existing literature from several developed nations such as the United States, United Kingdom, Australia, New Zealand, and European Union countries as well as cross-country studies and how such schemes can supplement retirement income. We also discuss each option for leveraging home equity and the potential hurdles with using home equity toward funding retirement from the retirees' and financial planners' perspectives.

In this extensive study, we not only review Canadian clients' views on equity release but also gauge the knowledge, attitude, and perspectives of Canadian financial planners toward recommending equity release products to their clients. We conduct a survey to investigate consumer perceptions of home equity products, their willingness to utilize these options, their behavioral biases, and the impact of COVID-19 on retirement planning, income, and security. Similarly, we survey financial planners to determine their knowledge and attitude toward various home equity release options to leverage residential property for funding retirement income. We conduct several literacy checks in order to validate financial planners' self-assessed knowledge of home equity release options. Finally, we examine financial planners' behavioral biases and the impact of COVID-19 on retirement planning, security, and income.

Key findings are as follows:

- Consumers are generally willing to access home equity to fund retirement income.
- Consumers consider paying for care, nursing, or support services as the most important reason for using home equity.
- Consumers feel, and financial planners agree, that equity release schemes in general, and reverse mortgages in particular, are complex products.
- Different factors explain the client's use and planner's recommendations of different home equity products. For example, married consumers, those with two or more children and with graduate education are less likely to use home equity products while cost reduction and having a financial planner increases the probability of using home equity products. In terms of financial planners, those who score high on the literacy questions, specialize in estate and retirement planning, and have income above \$125,000 are more comfortable providing advice about leveraging home equity to fund retirement. Age and mental accounting bias decrease the financial planner's comfort level in providing advice relating to the use of home equity for funding retirement.
- Cost reduction and having the products recommended by financial planners will make home equity release products more attractive to the clients. For example, 71% of consumers indicate that cost reduction would make home equity release schemes somewhat more appealing and much more appealing.
- The number one reason for not considering home equity release products to fund retirement is lack of knowledge. Lack of knowledge is cited as the primary reason for not accessing home equity products in other countries as well such as Australia.
- It appears that the consumers with a financial planner are better prepared for retirement as fewer are likely to exhaust all savings during retirement.
- Emotionally charged homeowners, coupled with complexity and costs associated with equity release schemes, avoid tapping into home equity to fund retirement.
- Consumers are more likely to utilize savings, sell and downsize, and sell investments in order to obtain extra income during retirement.

-
- Forty-eight percent of consumers with a financial planner would consider using a home equity release product compared to 42% of consumers without a financial planner. Similarly, 46% of urban consumers would consider home equity products compared to 40% of rural consumers.

Our study also documents the following outcomes of having a financial planner manage a client's portfolio :

- Seventy percent of consumers with a financial planner rate that they are highly to extremely comfortable with their retirement plan. In comparison, 46% of those without financial planners are comfortable with their retirement funding plan. More male compared to female and urban consumers are comfortable with their retirement plan.
- It appears that consumers with a financial planner are better prepared for retirement as fewer are likely to exhaust all savings during retirement. However, 29% of the participants indicate that they did not plan as well as they should have earlier in life compared to 43% of those without a financial planner.
- Eight percent of consumers with financial planners feels that COVID-19 has a positive (31% negative) impact on standard of living compared to 3% positive (35% negative) impact on standard of living for consumers without a financial planner. The remainder of consumers report no impact from COVID-19.
- Financial planners' recommendations are closely aligned with their client's perceived solutions. For example, the majority of financial planners recommend selling financial investments to fund planned or unplanned expenses. The clients also prefer tapping into financial investment accounts for funding needs.
- Financial planners self-report that they are highly knowledgeable about the various home equity release schemes but are not fully corroborated with literacy questions. Over 80% of the financial planners surveyed are familiar with the options presented, except for sell and rent or lease back where 68% of the financial planners are familiar with this option. The most familiar options are home equity line of credit (98%) followed by sell and downsize (94%) and refinancing existing home (92%).
- Financial planners ranked sell and downsize and home equity line of credit as the top two options that they are likely to recommend to clients to fund retirement income. Consumers also rank these as their top choice to fund retirement income.
- Financial planners view the various home equity release options as a positive tool to improve retirement security and income during retirement.
- One of the important policy implications of our findings is to offer educational programs to homeowners to educate them about equity release schemes. A knowledgeable individual will be more comfortable with using these products. This would also correct and, in certain cases, adjust the homeowner's behavioral biases.
- Our results highlight the need for implementing an education program specifically targeted at financial planners. These education programs should not only provide training for the various equity release schemes but also highlight how planners' behavioral biases translate into advising their clients.

Introduction

The aging Canadian population, the mounting pressure on pension systems, the rise of homeownership, and the growth in house prices have sparked interest in using housing to generate retirement income. By 2030, almost 25% of Canadians will be 65 years old or older (Statistics Canada, 2014) with many looking for advice to make up for retirement income shortfalls, pay off existing debt, and supplement their cash flow for other expenses. According to the 2019 Binder Dijker Otte (BDO) Canada Affordability Index, more and more Canadians are falling behind on saving for retirement, and planning for retirement has increasingly been put on the backburner, even for those nearing retirement. Canadians are feeling financially stuck and struggling to make ends meet due to rising costs of living, stagnant incomes, and growing debt loads (BDO, 2019). Almost four in ten (39%) non-retirees admit to having no retirement savings compared to 31% the prior year, including nearly one-third (32%) of baby boomers and seniors (BDO, 2019). More than four in ten Canadians have cut savings for retirement, while 71% say saving for retirement is a challenge (BDO, 2022). Furthermore, according to a report published by Healthcare of Ontario Pension Plan (Canadian Retirement Survey, 2021), 67% of Canadians believe an emerging retirement crisis exists, and 65% feel that saving for retirement is prohibitively expensive.

Homeownership has long been a cornerstone of the “Canadian dream,” and based on the recent survey by Mortgage Professionals Canada (2020), the recent COVID-19 uncertainty has increased the desire for homeownership. Although homeownership can create opportunities to build equity and help to achieve greater financial security, most homeowners do not consider their home an asset and are emotionally attached to their residential properties (Baker and Miller, 2009). This emotional bias can impact an individual’s retirement portfolio in two ways: Emotionally charged homeowners not only exclude residential properties from their retirement portfolios, but the stress of servicing debt from utilizing home equity release scheme post-retirement might force some homeowners to take out money from higher-income investment accounts to pay down their mortgages.

Additionally, retirement planning generally ignores home equity and focuses primarily on the use of financial assets. However, for many households, particularly those with less wealth, home equity is much larger than financial assets (United States Board of Governors of the Federal Reserve System, 2013). Bravo et al. (2019) find that the average European household’s wealth (excluding pension wealth, the present value of all future expected pension benefits) is primarily held in the form of real assets, representing 82.2% of total assets owned by households. The largest component of real assets is the household’s main residence, representing 60.2% of total real assets, followed by other real estate property (22.3%). Therefore, in this study, we evaluate the various options for tapping into home equity for retirement funding. We also provide a comprehensive assessment of the knowledge and experiences of financial planners with home equity in their clients’ retirement planning.

Using the life cycle theory of consumption (Modigliani and Brumberg, 1954), which assumes that individuals optimize their consumption over their working and retirement life based on expected lifetime or permanent income, the aim of this research is to explore the different alternatives for leveraging residential property to help retiring Canadians fund their retirements. We examine several options to leverage residential property such as selling and downsizing residential property, renting out a portion of the property, reverse mortgage, home equity loan, and traditional second mortgage. We also analyze the costs and benefits associated with each of the proposed options. We discuss the key demand-side and supply-side obstacles and challenges faced by consumers and financial planners in utilizing residential properties to fund retirement income and extract some policy implications.

In this process, we review the housing equity release strategies in developed countries and explain the options available for Canadians to utilize housing to provide retirement income. We describe the pros, cons, costs, and risks of each option.

Literature Review

Home equity is typically the largest component of household wealth for those entering retirement (Sass, 2017). However, retirement planning typically focuses on the use of financial assets. In addition, the prior literature shows that retirees are reluctant to utilize home equity to fund retirement for a variety of reasons such as lack of understanding of the available options (information impediments), complexity of assessing the benefits of the available options, costs associated with leveraging real estate, bequest motives, and behavioral impediments. Below, we report the findings for similar studies focusing on the U.S., European and United Kingdom (UK), Australian, and New Zealand markets as well as cross-country analysis. In addition, we present various options for utilizing home equity available to Canadians, outline the costs and benefits of each option, and provide relevant empirical evidence drawn from studies outside of Canada. We are unable to find any existing academic study on Canadian markets for utilizing home equity to fund retirement expenses.

In the theoretical model of Yang (2009), an owner-occupied home has a dual role: it directly provides utility and can also be used as a collateral. Furthermore, Searle and McCollum (2014) argue that housing market gains have presented many homeowners with significant wealth and that policymakers could reasonably expect that some of these assets be utilized to meet welfare needs in later life. However, Nakajima and Telyukova (2013, 2017) find that the bequest motive and the utility benefits of homeownership are important factors in determining the low withdrawal rates of housing wealth for funding retirement. Homeownership benefits include in-kind housing services, protection against longevity risk, rent increases, and connections with nearby family, friends, and community amenities. However, Munnell et al. (2020) argue that most homeowners experience enough residential stability to tap home equity and retirees might be more likely to tap their home equity if they felt that they had adequate public or private insurance protection against the risk of needing long-term services and supports. On the other hand, Pearson and Lacombe's (2021) findings suggest that retirees may have limited knowledge of the available tools to access home equity. In addition, Poterba et al. (2011) argue that home equity is often conserved until very late in life. For many households, it may provide some insurance against the risk of living longer than expected. In the rest of this section, we present a summary of the findings from the literature from various countries for using home equity to fund retirement income. We also discuss each option for leveraging home equity, the potential hurdles with using home equity toward funding retirement from the retirees' and financial planners' perspectives.

Evidence from the United States

The prior literature on utilizing home equity to fund retirement in the United States is mixed. Several studies provide evidence that households are utilizing home equity to fund retirement. For example, Smith et al. (2009) use the 1998–2006 wave of the Health and Retirement Study to investigate how households change their asset holdings at older ages. They find that households accumulate a great deal of wealth in their pre-retirement years. In aggregate, net worth rises until the late 60s, remains flat until age 85, and then declines at older ages. However, the study highlights important differences in the rate of asset decumulation by income groups. High-income seniors increase assets at older ages while low- and middle-income seniors reduce their assets in retirement but at a rate that, for most seniors, will not deplete assets within their expected life. Similarly, Sheiner and Weil (1992) find, using the Panel Study of Income Dynamics, that average levels of homeownership among older adults decline significantly with age and conclude that housing wealth is used for consumption. However, the observed decline in homeownership is rather small.

Hurd and Rohwedder (2008) show evidence supporting the retirement funding shortfall. They document that an average couple (and a single individual) have a 95% (50%) probability to outlive their total wealth. Several studies show that households are not consuming housing equity in retirement. For example, Venti and Wise (1990), using the Retirement History Survey, find that, on average, older adults who move do not downsize their home. They conclude that older adults are, in general, not willing to use housing equity for consumption. Similarly, Hurd (2002) shows a modest decline in housing wealth and homeownership rates among older adults. Furthermore, he shows that households experiencing a health shock or a widowhood event display larger declines in housing

equity and are more likely to terminate homeownership. Along a similar line of investigation, Venti and Wise (2004) find that households who experience a widowhood event or nursing home entry display considerable decline in homeownership and in housing equity, while for households who do not experience any of these events, housing equity remains almost intact throughout retirement. Overall, they find that older adults are rather unlikely to move or terminate homeownership. They conclude that housing equity is generally not used for consumption. This has two implications for equity release-type programs and retirement: first, the demand for reverse mortgages is low, and second, housing wealth should not be counted when assessing retirement savings since it is not interchangeable with financial wealth. Instead, it might be suited to consider housing equity as a consumption good that at the same time, provides a buffer against adverse shocks.

Sinai and Souleles (2007) consider how much of their housing equity older households can tap using reverse mortgages. They consider two forms of reverse mortgages: first, a theoretical “upper-bound” reverse mortgage product that provides the maximum possible liquidity and second, the actual reverse mortgage products available in 2007, which appear to still suffer the drawbacks of having a small market. They find that homeowners have considerable housing equity that they can borrow against. However, they do not borrow any amount close to what standard measures of housing equity would imply. The available loan amount generally increases with an owner’s age since the lender does not usually have to wait as long before being repaid. Sinai and Souleles (2007) suggest several reasons why reverse mortgages are not fully utilized to fund retirement income. First, legal and marketing considerations require that lenders collect the lesser of their debt position or the house value. Hence, lenders reduce the initial loan amounts to be relatively confident that the house value will exceed the debt position at the time of death. Second, problems of adverse selection (long-lived borrowers) and moral hazard (borrowers do not maintain their houses) also reduce the amount lenders are willing to lend. Finally, current reverse mortgage markets might also suffer from other early-stage problems of a new financial product such as thinness or lack of familiarity.

Evidence from Europe and the UK

Just like the U.S. and Canadian markets, residential property reflects the majority of a retiree’s assets in the European and the UK markets. Bravo et al. (2019) argue that building up housing wealth through homeownership and mortgage repayment is by far the main way European households set aside savings for old age. Mathä et al. (2017) find that in the European Union (EU), the household’s wealth (excluding pension wealth, the present value of all future expected pension benefits) is primarily held in the form of real assets, which represent 82.2% of total assets owned by households (85.1% in Spain, 88% in Portugal) with the remaining assets (17.8%) being financial. The largest component of real assets is the household’s main residence, representing 60.2% of total real assets, followed by other real estate property (22.3%). In the EU, roughly 70% of Europeans live in owner-occupied accommodations. Homeownership, on average, represents 50% of the total net wealth in the EU (Mathä et al., 2017).

Given the uncertainty regarding the long-term future of pensions in European countries due to the lack of public resources, together with the inevitable aging of the population, many might be forced to use private financial instruments to meet their retirement needs (Simón-Moreno, 2019). However, the development of the equity release market varies across Europe, and confidence in using these products is equally varied across nations, with most owners envisioning only using a reverse mortgage as a last resort (Doling and Elsinga, 2013). Even in the UK, which dominates the European equity release market (Overton and Doling, 2009) evidence suggests older owners face multiple barriers such as setup costs, mistrust of the product and providers, availability of equity release schemes, and pricing and formidable process to accessing their housing assets through equity release schemes (Terry and Gibson, 2006; Angelini et al., 2011; Jones et al., 2012).¹

Reifner et al. (2009) argue that the loan model, reverse mortgage, is the equity release scheme most widely used in Europe, rather than the sale model. Furthermore, Angelini et al. (2014) use life history data from the Survey of Health, Ageing and Retirement in Europe to show that retirees that are cash-poor and house-rich are the most likely to downsize their housing asset.

¹ Angelini et al. (2011) document hurdles associated with using home equity through downsizing to a cheaper property in the UK.

Evidence from Australia and New Zealand

Using the Survey of Family, Income and Employment, Scobie et al. (2007) show that 60% of households own a home, almost half of the homeowners have no mortgage debt. Further, just like other developed nations, housing represents a major share of household wealth in Australia and New Zealand. Using a life cycle mode of consumption smoothing, Scobie et al. (2007) show that even if households planned to draw down half of their housing equity to support retirement income, the impact on the savings rate needed to smooth consumption would be modest. They argue the prospect of reverse equity mortgages may well play a precautionary role in that housing equity represents a store of value that could be drawn on to meet unanticipated expenditures.

In Australia, the attitude toward accessing home equity may be changing. Olsberg and Winters (2005) conduct a national survey of older Australians on their future housing intentions for the Australian Housing and Urban Research Institute research project Ageing in Place on intergenerational and intrafamilial housing transfers and shifts in later life. The survey finds that 12% of respondents aged 60–74 consider downsizing to release money to live on, but less than 10% of all respondents envision taking out a loan on their home to pay for future needs (Olsberg and Winters, 2005). The survey finds that 35% of those aged 50–59 expect to use up all their assets while alive, as do 30% of those aged 60–74. By comparison, only 13% of those aged 75 and above show any willingness to access their home equity for funding retirement (Olsberg and Winters, 2005). These results seem to suggest that there may be a growing willingness to access home equity by future retirees. Beal (2001) shows that young to middle-aged, more educated, and managers and professionals have a higher willingness to access their housing wealth. Those less willing appear to be people older than 65 years, people on lower incomes, and singles or couples without dependents (Beal, 2001). Also, retaining a home to bequest to children is a major consideration for only 5% of the sample, predominantly among those aged 65–74 years old. They report a desire to leave their houses as legacies to their children (Beal, 2001). Finally, Australian survey evidence suggests that in the future, there is likely to be increasing interest in accessing home equity to enhance retirement living standards (Dolan et al., 2005). On the other hand, Brownfield (2014) argues that even though a home equity release scheme exists as a pillar of the Australian retirement income system, it does not play a significant role in retirement funding.

Cross-country Comparison

Banks et al. (2012) compare downsizing among retirees in Britain and the United States.² Similarly to Venti and Wise (2004), they focus on households that move to a new location. They find that there is more downsizing in the United States than in Britain even though in both countries the vast majority of older households do not actually move. These comparative results hold when controlling for marital status, family size, and employment transitions. In addition, Banks et al. (2012) argue that climate diversity and variation in environmental amenities in the United States and institutional factors in Britain (transaction costs due to taxation of home sales) explain their results. Blundell et al. (2016) find that assets are drawn down more slowly in England than in the United States.³ In addition and in line with the results by Banks et al. (2012), they observe that the lack of housing equity drawdown is a crucial element in explaining differences in wealth decumulation between the two countries. They suggest that this phenomenon is likely to be explained by a combination of factors such as the consumption value of housing, the financial and emotional transaction costs involved in releasing housing wealth, and the risk-return mix provided by the housing.

Chiuri and Jappelli (2010) employ data from different country-specific surveys that allow them to construct a data set of repeated cross-sections over time. They look at the cross-sectional relationship between homeownership and age. They find that homeownership rates decline considerably after age 60. However, after controlling for cohort effects, the decline becomes much more moderate, and it does not start until after age 75. In addition, they find that cross-country variation in terms of institutions, such as tax regimes and mortgage

² They use Panel Study of Income Dynamics data for the United States and British Household Panel Survey data for Britain.

³ They use Health and Study and the English Longitudinal Study of Ageing.

market regulations, have an impact on the degree to which housing wealth is withdrawn during retirement. For example, from age 75–80, they show that in countries such as Austria, Belgium, Germany, Italy, and France, which feature less developed and efficient mortgage markets, the elderly are more likely to decumulate housing wealth. The UK, Canada, Ireland, Denmark, and the United States are on the other side of the spectrum, with relatively low rates of wealth decumulation and more developed mortgage markets.

Prior research documents that U.S. seniors most frequently use home equity release scheme (HERS) in forms of the closed-end home equity loans, home equity lines of credit, and a cash-out refinancing of the primary mortgage. Home equity withdrawal and release occur at a lower rate in the Europe than the United States, with substantial variations among the European countries. There are a number of factors to consider when employing any housing HERS. First, older homeowners might be reluctant to extract housing equity because this would hamper the possibility to transmit the family dwelling to their offspring, although the traditional bequest motive seems to be less important in some countries. For example, empirical evidence shows that British citizens are more inclined to give up their heritage and to use HERS (Toussaint and Elsinga, 2012) than Spanish citizens. A study (Devesa et al., 2016) based on surveys carried out among Spaniards over 65 showed that 71.4% of respondents wanted to leave all their assets to their heirs. In the UK housing market, it is seen as a financial investment that could be using for retirement (Doling and Elsinga, 2013). In contrast, in social democratic countries like Finland and the Netherlands, the pension system is relatively generous and reliable and hence, the need to utilize HERS to compensate for retirement income shortfall is less important (Doling and Elsinga, 2013).

The use of HERS is not widespread throughout the EU (Overton and Doling, 2009): only a small group of countries have a proper legal framework for individuals to utilize HERS, with Ireland, Spain, and the UK being the most important, as they account for roughly 75% of the total HERS business in the EU. This is in line with other studies (Delfani et al., 2014) that show that HERS could work in countries where public or private pensions are insufficient (in order to prevent the individual from falling into poverty) and the real estate market is more liberalized (commodified) so the tenant is less protected. Hence, the implementation of HERS depends to a certain degree on the development of the real estate market, the tax treatment of property, housing price trends, and the generosity of the pension system (Hafner et al., 2015, 239).

HERS

Equity release schemes allow homeowners to transform their housing wealth into liquid assets, thus taking advantage of the wealth (housing equity) accumulated over the years (Simón-Moreno, 2019). Bravo et al. (2019) argue that the use of HERS is supported by the life cycle theory of consumption (Modigliani and Brumberg, 1954) which has long been the workhorse to model wealth accumulation and decumulation decisions of individuals. They argue that the theory assumes that individuals optimize their consumption over their active and retirement age based on expected lifetime and/or permanent income. In order to perform life cycle redistribution and to smooth consumption over the life cycle, it is assumed that individuals accumulate financial and nonfinancial assets during the earlier years of their life course when (permanent or transitory) income exceeds consumption and draw down their wealth thereafter until death when income falls below levels required to fulfill consumption needs in later life (Ong et al., 2013).

Yao and Zhang (2005) find that homeowners tend to have a higher proportion of risky assets mostly tied to illiquid residential property compared to liquid assets and the housing wealth volatility impacts individuals' life cycle consumption and welfare. Simón-Moreno (2019) argues that the willingness to leave housing wealth to the children and the difficulty of knowing how long they will live or having enough money for unexpected purposes are reasons why the elderly is reluctant to use HERS. Furthermore, a burdensome legal framework for the individuals involved can be a barrier to widespread use of HERS (Simón-Moreno, 2019). Also, the implementation of HERS depends on the development of the real estate market, property tax environment, housing price trends, and existing pension system (Haffner et al., 2015). In fact, Delfani et al. (2014) argue that HERS could work in countries where public or private pensions are insufficient and the real estate market is more liberalized such as Ireland, the UK, the United States, Spain, Portugal, Italy, and Greece.

Much of the wealth that individual households possess is stored in the owner-occupied house. Older homeowners, who usually have completely or largely paid for their mortgage, tend to have a substantial amount of equity accumulated in the dwelling. It may be attractive or even necessary for them to release part of this housing equity in order to supplement their retirement income.

There are several disadvantages to HERS. First, the difficulty of knowing how long one would live or would have enough money for unexpected purposes (longevity risk). Second, the values that are usually associated with homeownership (freedom, continuity, security, respectability, adulthood, success, independence, control, and identity) may outweigh the desire to withdraw equity from the property for financial security in later age, thus posing a risk to the goals of the asset-based welfare (O'Mahony and Overton, 2015). Third, HERSs not only lack transparent product information but also “suffer” from a lack of trust in financial institutions and regulators especially following the 2008 Global Financial Crisis.

Various HERS Options

Reverse Mortgage

Reverse mortgage is arguably the most marketed HERS in North America. A typical reverse mortgage is a mortgage loan secured by a residential property. Reverse mortgages allow homeowners to access the home equity they have built up in their homes, while deferring payment of the loan until they die, sell, or move out of the home. It allows homeowners to convert their homeownership into cash while continuing to occupy the house as long as they need or until a prespecified maturity date. Homeowners receive a pension-like payment to sustain or enhance their living standards. Regulation protects homeowners from eviction and foreclosure as long as any of the two spouses are alive.⁴ Because there are no required mortgage payments on a reverse mortgage, the interest is added to the loan balance each month. However, borrowers are still responsible for property taxes, homeowner's insurance, and maintenance costs. Eventually, the lender liquidates the house to offset the payments and accumulated interest and hands over the rest to legal heirs. There are several types of reverse mortgages available in various countries such as home income plans, interest-only mortgages, roll-up mortgages, etc. (see Appendix A for detailed descriptions of the different types of reverse mortgages).

For seniors, the benefits claimed for a reverse mortgage depend on the details of the contract and the institutional setting in the country. If the reverse mortgage proceeds are withdrawn as an annuity, they provide a supplement to retirees' public and private pensions. Generally, all existing mortgages must be repaid at origination, and thus the reverse mortgage relieves seniors of making a monthly payment and thus increases their disposable income. If the funds are withdrawn as a lump sum, they can be used for emergencies such as home repair or a family crisis. In the United States and select EU countries, this list of emergencies includes preventing foreclosure of a home where there is positive equity, but the senior failed to make monthly mortgage payments. Other country-specific claimed benefits include delaying the date of withdrawing pension benefits, addressing an income shortfall due to job loss, and funding substantial out-of-pocket health-care costs. Proceeds from a reverse mortgage can be used to pay down existing expensive debt (credit card and installment) at a lower interest rate.

In addition, the timing of bequests (gifts) can be moved forward (prior to a senior's death), thus potentially assisting children or grandchildren earlier in their lives. If an individual obtains a reverse mortgage, the probability of the parent moving in with their children could be reduced (Reifner et al., 2009). To the extent that an individual draws on a portfolio of stocks to supplement income (perhaps from a private retirement fund), the individual can delay selling low-value stocks by drawing from a reverse mortgage's available balance.

⁴ *In the United States, essentially all reverse mortgages are government-insured home equity conversion mortgages (HECMs), available to homeowners aged 62 and older. HECM loans are typically set up as a line of credit. The government guarantees borrowers that they will get the contracted funds and assures lenders that they will be repaid even if the balance exceeds the proceeds from the sale of the house (Munnell et al., 2020).*

Mounting evidence suggests that retirees may find reverse mortgages difficult to understand and for that reason, shy away from using them (Davidoff et al., 2017). Furthermore, the low uptake of reverse mortgage in the United States seems to be largely explained by informational and behavioral impediments (Sass, 2017). In fact, Davidoff et al. (2017) find that general awareness of HECMs among US elderly homeowners is high. However, product knowledge (product-specific literacy) is fairly low, and lack of knowledge relates to low intention to use reverse mortgages (for a detailed list of costs and benefits, see Appendix B).

Strikingly, homeowners with limited financial resources who would benefit the most from reverse mortgages. Hopkins (2016) shows that only 3% of respondents aged 55–75 successfully passed a questionnaire on reverse mortgage and retirement income in the United States. Hopkins (2016) finds that the existence of a relationship with a financial advisor did not increase the likelihood that a reverse mortgage would be considered as retirement income. He shows that respondents did not have a positive view of reverse mortgages. Low literacy rates and negative opinions about the product appear to be restricting wider use of reverse mortgage. In the case of the United States, another factor that influences the use of reverse mortgages is the misinformation among the elderly and the mistaken perceptions they have about this mortgage product (Davidoff et al., 2017). Similarly, the Spanish government acknowledged misinformation as a factor affecting the marketing of reverse mortgage (Simón-Moreno, 2019). Furthermore, social, psychological, and cultural values that are usually associated with homeownership (O'Mahony, 2009) can affect the use of reverse mortgage. For example, the psychological value of owning a home outweighs the financial value of the property (Simón-Moreno, 2019).

Davidoff et al. (2017) show that providing potential consumers in the United States with a brief text explaining the key features of reverse mortgage did not change their intention to use reverse mortgage. However, reverse mortgage product knowledge and peer influence are predictors of the intention to use a reverse mortgage.

Reverse mortgages in Canada are available to individuals aged 55 years and over, compared to the typical age of 62 years in most developed countries.⁶ Similarly, the amount available in Canada is 55% of the home's value compared to a maximum of \$625,500 in the United States. In Canada, the cash flows from reverse mortgage are tax-free and do not affect government benefits such as Old Age Security (OAS) or Guaranteed Income Supplement (GIS). In the United States, lump-sum advances are tax-free, but monthly annuity advances may be partially taxable. The legal and administrative costs associated with reverse mortgages in Canada, such as independent legal advice fee, appraisal fee, and standard closing and administration costs, are lower compared to other developed nations⁷.

Home Equity Line of Credit (HELOC)

Homeowners can use a line of credit to borrow funds up to some maximum amount within an agreed period using the primary home as collateral (Bravo et al., 2019). HELOCs are revolving credit lines secured by the borrower's residential property. HELOCs can benefit consumers through low interest rates, convenient access to funds, and flexible repayment terms. However, HELOCs allow consumers to make interest-only payments, which can result in homeowners carrying debt for prolonged periods. HELOC can also be combined with a fixed term mortgage. According to the 2018 survey report published by the Financial Consumer Agency of Canada, HELOCs are the largest contributor to non-mortgage consumer debt in Canada, more than double that of either credit cards or auto loans.⁸ Although a HELOC provides convenient access to funds at a lower interest rate, it can also encourage consumers to add to their debt load, thereby increasing stress on Canadian households.

⁵ Survey respondents were quizzed on their reverse mortgage literacy.

⁶ In Canada, reverse mortgage is offered by Home Equity Bank across Canada and by Equitable Bank in Alberta, British Columbia, Ontario, and Quebec. On September 21, 2021, Bloom Finance Company (a FinTech firm) announced the launch of its home equity release platform for aged 55+ homeowners across Ontario.

⁷ For example, administration fees for reverse mortgage in Canada can be \$1,795–\$1,995 and can be paid from the process of the reverse mortgage according to chips.ca. In comparison, in the United States, the costs include mortgage insurance premiums, origination fees, third-party charges, and serving fees. A typical insurance fee is 0.5% of the loan and origination fee is a maximum of \$6,000 in the United States.

⁸ <https://www.canada.ca/content/dam/fcac-acfc/documents/programs/research-surveys-studies-reports/home-equity-lines-credit-consumer-knowledge-behaviour.pdf>.

HELOCs do not provide a lump sum up front; rather, it provides a revolving line of credit guaranteed by the borrower's residential property. The credit limit on a HELOC can be a maximum of 80% of the purchase price or market value of the home in Canada.⁹ An individual can draw down on HELOC whenever the money is needed. When the money is in fact withdrawn from HELOC, the borrower pays interest only on the amount borrowed, calculated daily at a variable rate. HELOC rates are typically slightly higher than variable-rate mortgages and are tied to the lender's prime rate. The legal and administrative costs include appraisal, title search, insurance, and legal. Like conventional mortgages, HELOCs are not especially useful for tapping home equity since the amount borrowed has to be repaid with regular monthly payments (Munnell et al., 2020). For a detailed list of costs and benefits, see Appendix B.

Second Mortgage (Non-HELOC)

Individuals can borrow up to 80% of the appraised value of the home minus any outstanding balance on the first mortgage. Compared to reverse mortgages and HELOCs, borrowers are required to pay off their second mortgage while continuing to pay off their first mortgage. Second mortgage is not a suitable equity release method for funding retirement income. However, it may be suitable to meet emergency expenses. Similar to reverse mortgages and HELOCs, the borrower has administrative fees such as appraisal fees, title search, title insurance, and legal fees.

Refinance Your Home

For this option, individuals can borrow up to 80% of the home's appraised value minus the balance of the existing mortgage. Individuals can access a lump-sum amount to fund expenses, including retirement. However, like second mortgage, it is not suitable to fund ongoing retirement expenses. However, it is suitable for emergency expenses. Typical fees include appraisal fees, title search, title insurance, and legal fees. Generally, refinancing occurs at lower interest rates.

Selling and Moving to a Smaller Owner-Occupied Dwelling (Downsizing)

The most straightforward way for older homeowners to release housing equity is to sell and move to a smaller dwelling. In all of the European countries except Italy, downsizing is the most preferred housing equity release option (Hoekstra and Dol, 2021). A homeowner may trade down homeownership by moving into a less expensive house—for instance, a house that is spatially small or that has fewer bedrooms or moving to a less expensive residential area (e.g., countryside, abroad). This process of extracting home equity is usually called downsizing. The amount of equity released via downsizing equals the difference between the equity stored in the house sold and the equity stored in the new house (Bravo et al., 2019). This option is relatively easy to understand and to perform, and it allows households to continue to be homeowners. However, downsizing can come with costs. First, there are usually high financial costs associated with downsizing including realtor commissions, legal fees, closing costs, home improvement costs, land transfer tax, title insurance, moving costs, and monthly condo fees. Second, there could be high emotional costs to downsizing, which often involves leaving a familiar neighborhood where family or friends are located. For some people, this can be problematic, as many older households have an emotional attachment to their dwelling, and they prefer to stay in it as long as possible (aging in place).

When considering this option, individuals should know that the potential for realizing this strategy is highly dependent on the local housing market situation. For example, selling a house might be difficult in areas with a shrinking population, whereas finding a suitable and affordable smaller dwelling might be complicated in areas with a tight housing market, such as bigger cities. Also, downsizing appears to occur mainly in response to financial or care-related needs driven by declining health and/or the death of a spouse. Finally, moving could be difficult and time consuming. For a detailed list of costs and benefits, see Appendix B.

⁹ <https://www.canada.ca/en/financial-consumer-agency/services/mortgages/borrow-home-equity.html#toc4>

Sell the House and Move to a Rental Dwelling

Another option is to sell the house and move to a rental dwelling. The main advantage of this option is the lack of responsibility for maintenance. However, it could leave the former homeowners at the mercy of the future landlords, thus leading to insecurity. In this case, the net amount of equity released equals the equity stored in the home (gross sale price of the home, net of outstanding debt, taxes, and trading costs) (Bravo et al., 2019). For a detailed list of costs and benefits, see Appendix B.

Sell the House and Rent It Back (Sale and Lease Back)

For households who want to extract housing equity without having to move, selling the dwelling and leasing it back is a viable option. In a sale-and-lease-back construction, the household sells the dwelling to a third party and receives a large part of the market value. After the sale, the household pays a commercial rent and can continue to live in the same dwelling.

Ong et al. (2013) argue that sell-and-lease-back options are typically executed through home reversion schemes. Two main types of products typically fall under the home reversion scheme: (i) those under which property passes to the cash provider upon sale of the property and (ii) those under which property passes to the cash provider upon death of the homeowner or s/he voluntarily vacates the home (Bravo et al., 2019). Under the sale-and-lease-back model, a homeowner typically sells all of his/her property in exchange for a lifetime lease. For a detailed list of costs and benefits, see Appendix B.

Data and Results

Consumer Survey Results

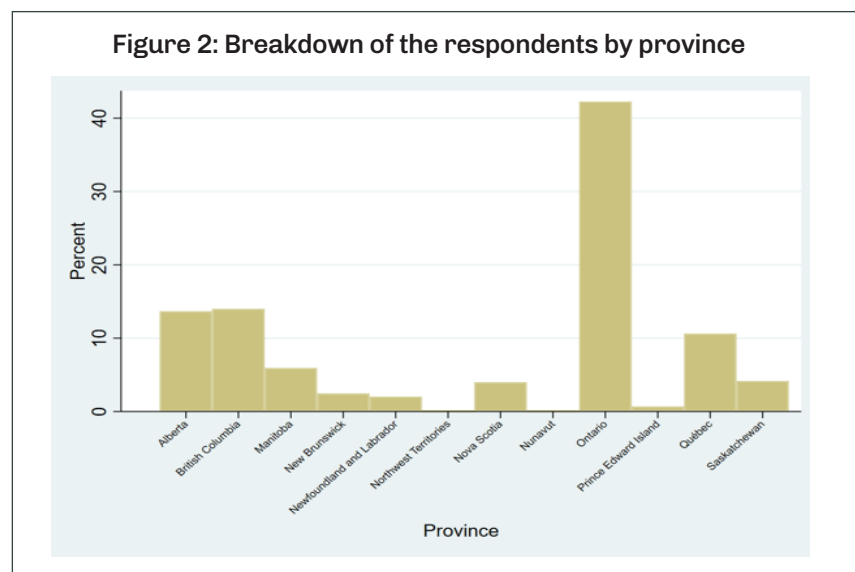
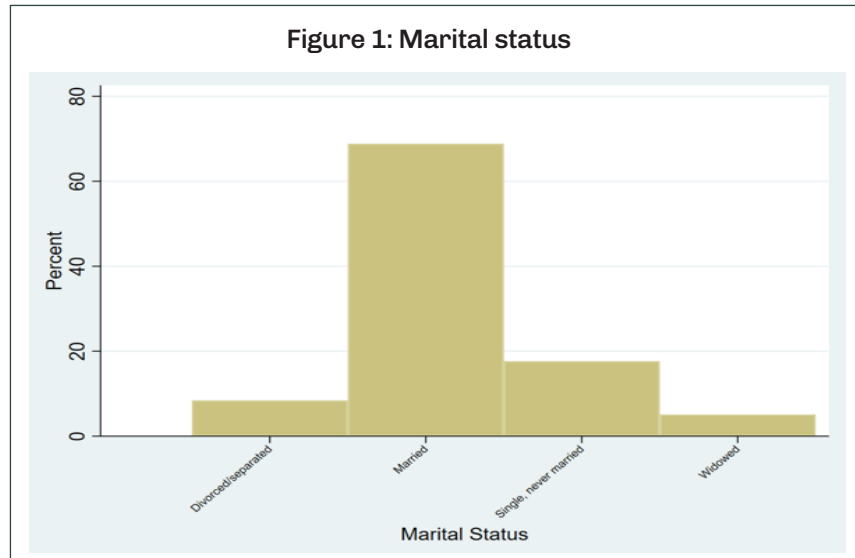
We conducted 1,200 consumer surveys via Qualtrics. We required that our sample be drawn from participants across Canada aged 18–99 years old. We requested that Qualtrics survey 20% of individuals in age group 18–39 years old, 40% of individuals in age group 40–60, and finally, 40% of individuals in age group 60+. Our goal was to construct a sample of individuals who are working and should consider retirement planning, individuals who are mid-career, and those who are closer to retirement or retired. We dropped 22 respondents who did not answer all the questions in the survey, resulting in a sample of 1,178 respondents that is representative across Canada.

In Table 1, we report the descriptive statistics of the sample. For example, the average age in the sample is 54 years, 44% of the sample are male, 66% of the respondents have at least one child. Of those who reported having children, the average number of children is 1.83 with a maximum of 3. Furthermore, 74% of the respondents reported living in a metropolitan area compared to 26% living in a rural area. Respondents were asked whether they were retired. Thirty-six percent of the sample are made up of retired individuals. The average age of retirement is 60 years while those who are not retired are expected to retire at an average age of 63 years. Furthermore, 49% of the participants indicated that they currently have a financial planner while 51% do not have a financial planner.

Table 1: Descriptive statistics

Variable	Obs.	Mean	Std. Dev
Age	1,178	54.26	14.30
Male	1,178	0.44	0.50
Children	1,178	0.66	0.47
# of children	710	1.85	0.70
Urban	1,178	0.74	0.44
Age retired	423	60.11	6.78
Age expected to retire	755	63.42	8.10

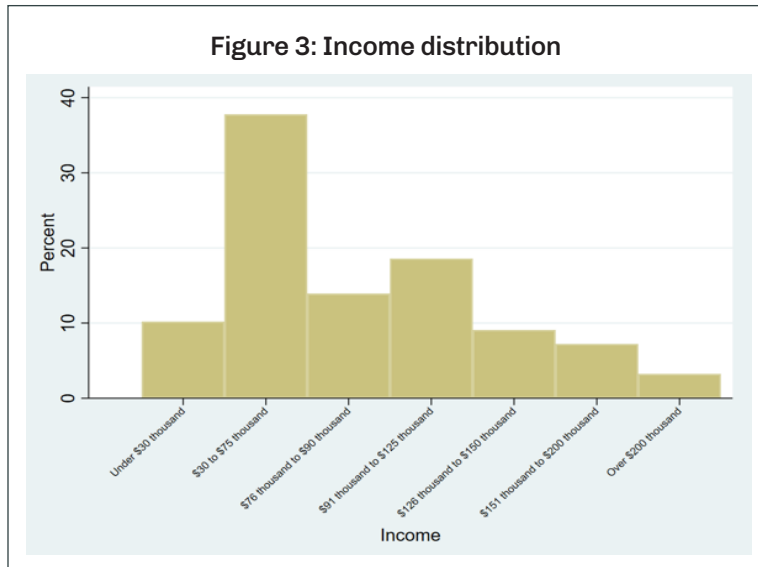
In Figure 1, we report the marital status of the consumers in the sample. More than 60% of the individuals in the sample are married while 19% are single and never married and the remainder are widowed or divorced/separated.



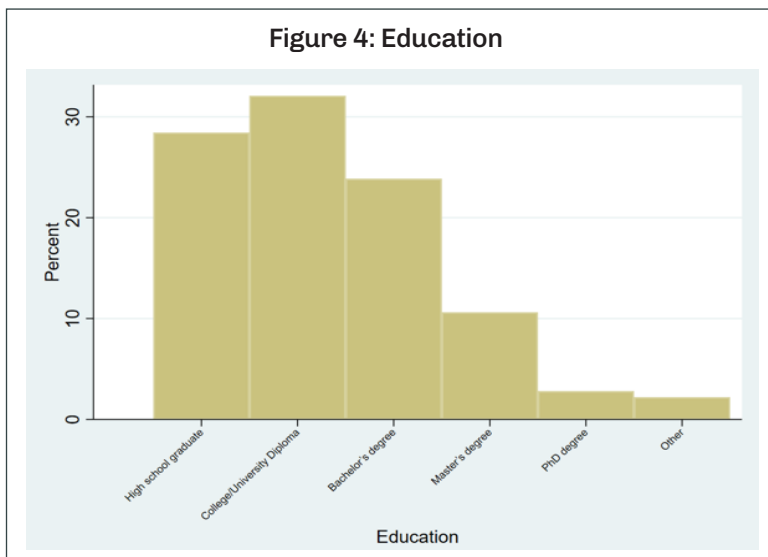
In Figure 2, the majority of respondents are from Ontario (42%). This is not surprising since Ontario is the largest province by population. The next largest province represented in the sample is British Columbia (14%). The proportion of respondents across provinces appears to be relatively well represented based on proportion of population except for Quebec. The primary reason for the underrepresentation of Quebec is due to our consumer survey being conducted in English only. This is a potential limitation of this study. However, our financial planner survey was conducted in both English and French.¹⁰

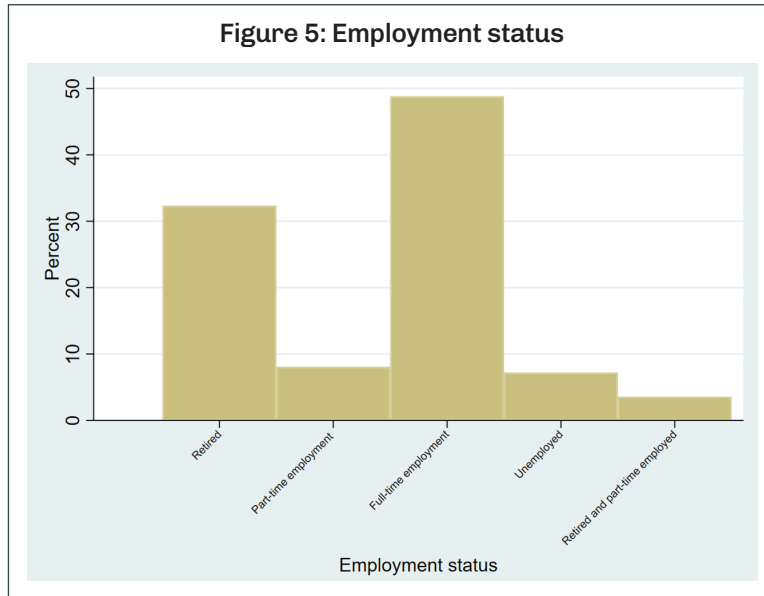
The income distribution of the sample is reported in Figure 3. The majority of respondents (37%) earn \$30,000–\$75,000, 10% earn less than \$30,000, 14% earn \$76,000–\$90,000, 18% earn \$91,000–\$125,000 while the remainder of the sample earn above \$126,000.

¹⁰ For the remainder of the report, when we refer to French-speaking financial planners, we are referring to financial planners from Quebec. When we refer to English-speaking financial planners, we are referring to the rest of Canada.



In Figure 4, we report education distribution of the sample. Twenty-eight percent of the sample respondents are high school graduates, 33% have a college/university diploma, 24% have a bachelor's degree, 11% have a master's degree, and 3% have a PhD degree. The education distribution appears to be consistent with the income distribution—that is, the majority (47%) of the sample earn \$75,000 or less similarly, and 61% of the sample have a high school or college/university diploma.

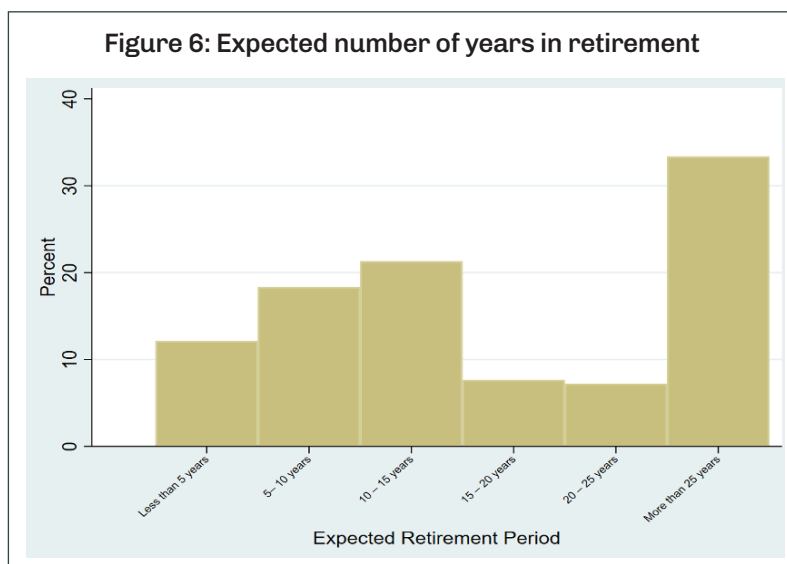


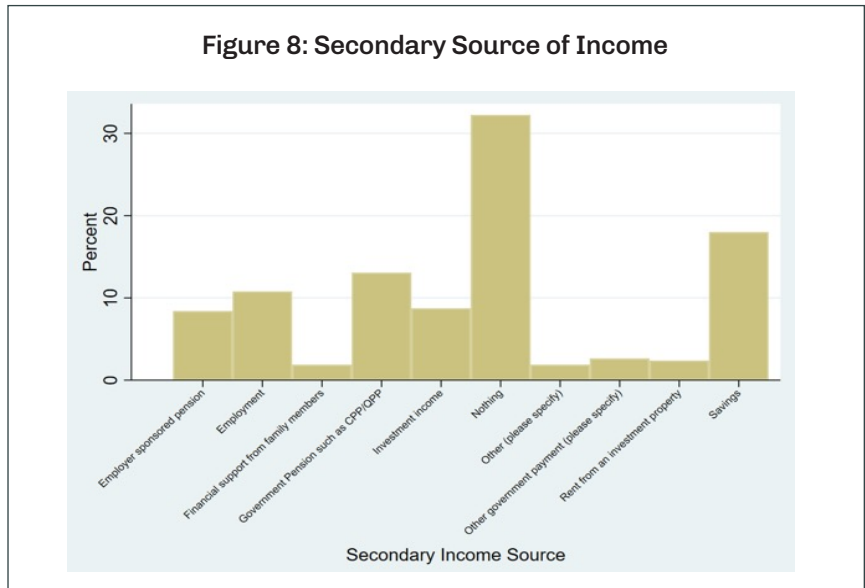
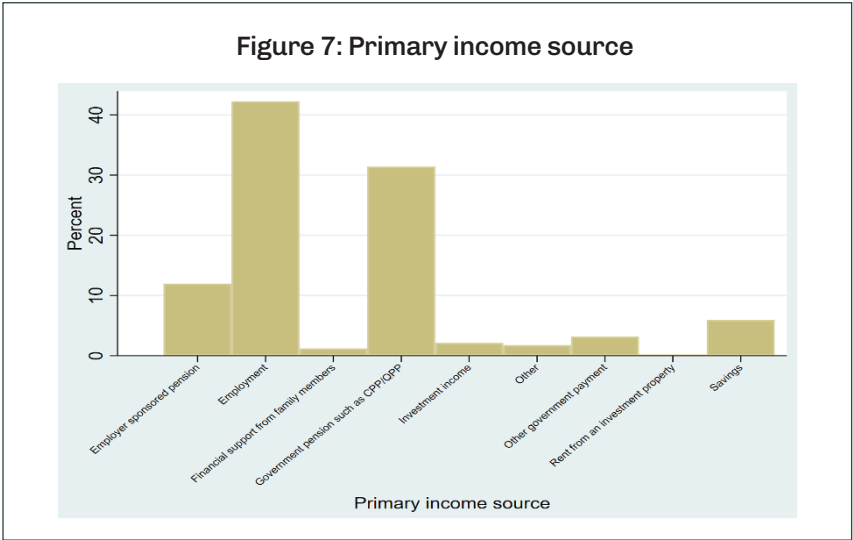


In Figure 5, we plot the employment status of the sample. Forty-nine percent of the respondents are employed on a full-time basis while 32% are retired and 8% are employed on a part-time basis. The remainder of the sample are retired and employed part-time (3%) and unemployed (7%).

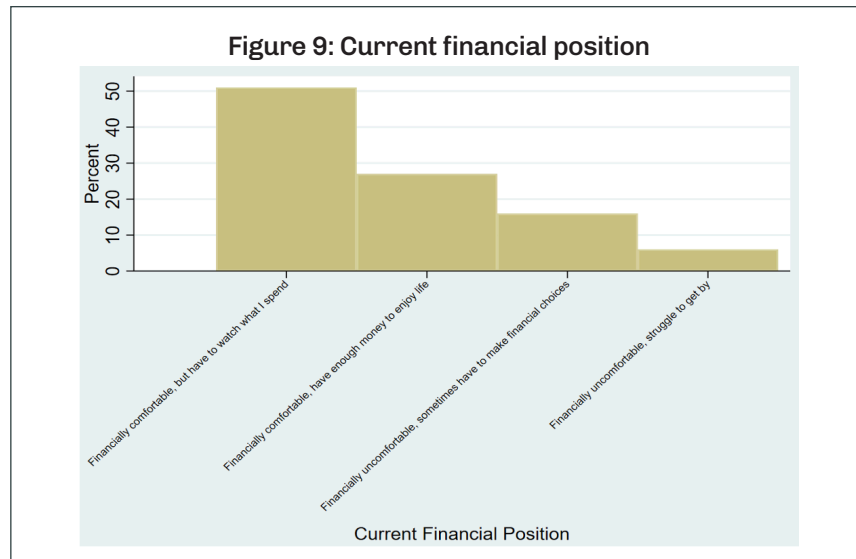
Figure 6 reports respondents' expected number of years in retirement. Not surprisingly, the majority of respondents (33%) expect to be retired for more than 25 years. Twenty-two percent expect to be retired for 10–15 years, 18% expect to be retired for 5–10 years while 12% expect to be retired for less than 5 years.

Next, to gauge participants' sources of income, we ask participants to identify their primary and secondary sources of income. Participants were allowed to select more than one source of income. Therefore, the percentages do not add up to 100. In Figure 7, primary sources of income are reported. Employment income (42%) is the major source of income followed by government and employer-sponsored pension (31%). This is not surprising since most of the participants are either employed full time or retired. In terms of secondary sources of income, the majority of respondents in Figure 8 report no secondary sources of income (33%) followed by savings (18%).

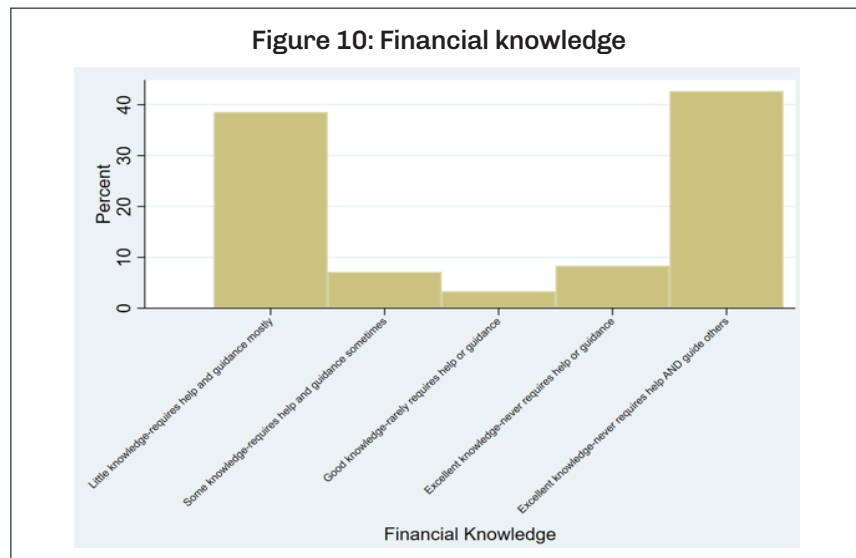




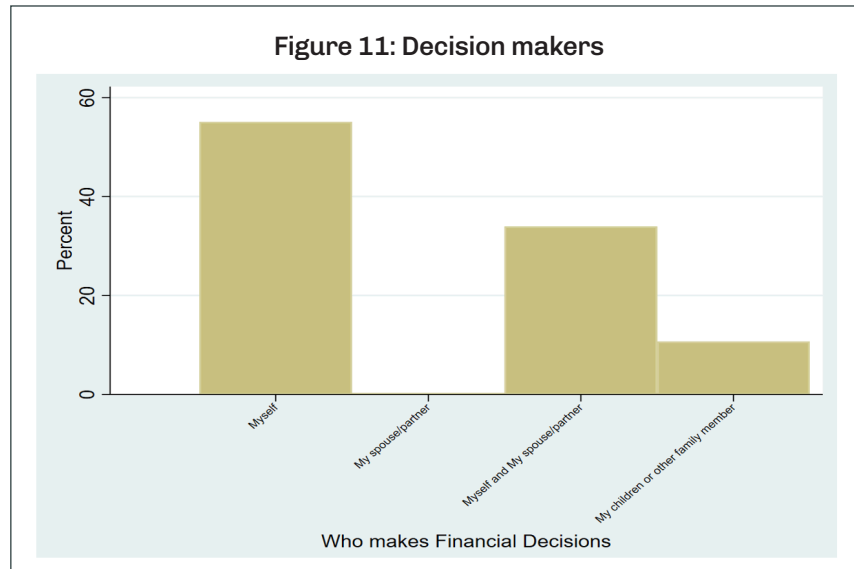
Next, we asked participants to select one of four choices that best described their current financial position. In Figure 9, 51% of respondents indicate that they are financially comfortable but have to be careful with their spending while 27% report that they are financially comfortable and have enough funding to enjoy life. Sixteen percent of respondents report that they are financially uncomfortable and sometimes have to make financial choices. Finally, 6% struggle to get by, financially, on a daily basis.



In Figure 10, we report participants' rating of their financial knowledge. The distribution appears bimodal. Respondents either have little financial knowledge and require help and guidance (39%) or excellent financial knowledge and do not require help and/or guidance and can help others (42%). The remaining 19% either have some knowledge or good financial knowledge.



We asked participants to indicate who makes financial decisions in their household and report the results in Figure 11. Not surprisingly, 90% of participants either make the financial decisions themselves or together with their spouse. For the remaining 10%, the decisions are made by their children or other family members.

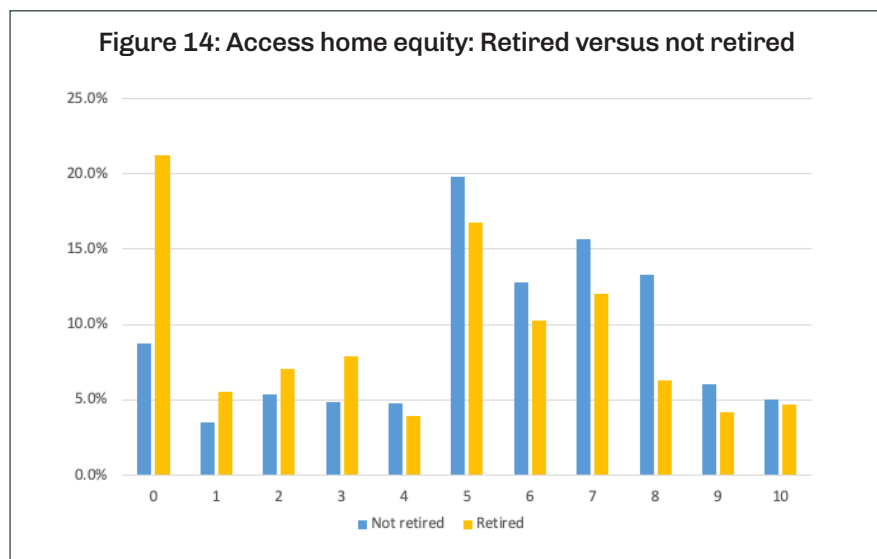
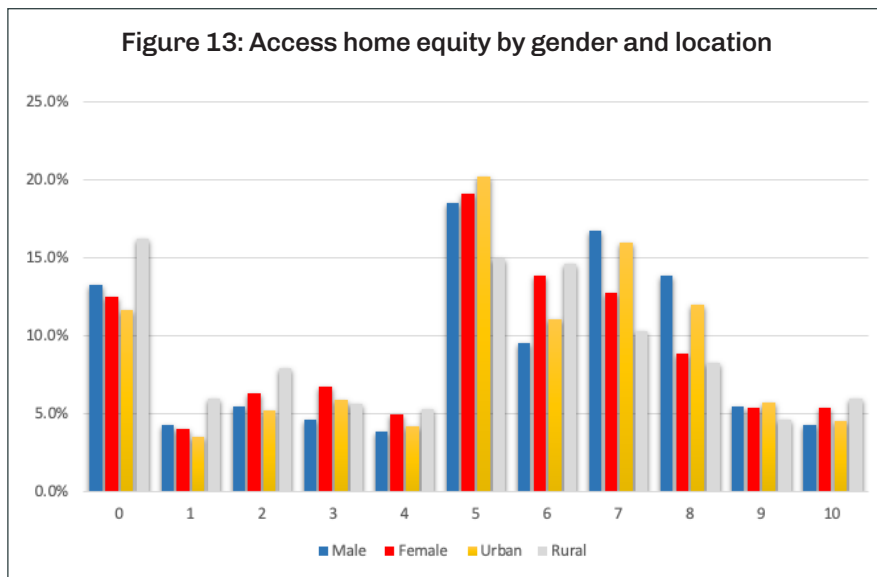
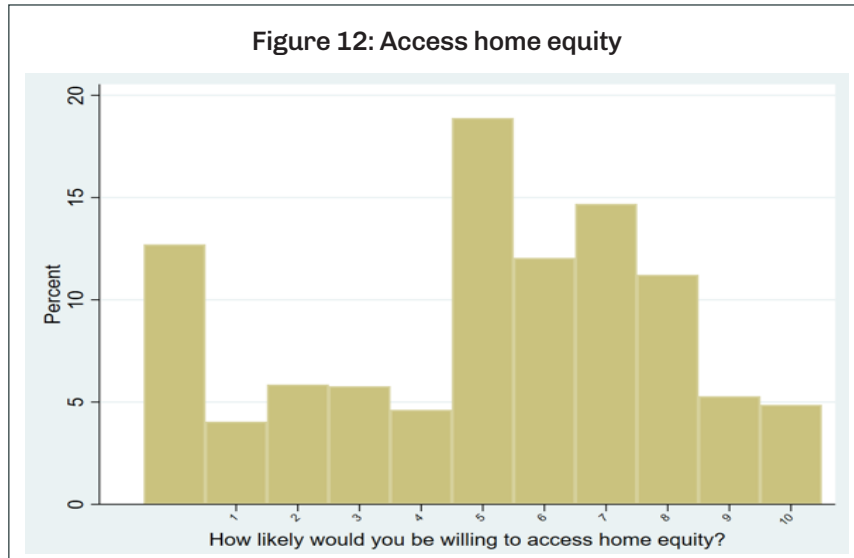


Potential Use of Home Equity

We asked participants to rate from 0 to 10 their willingness to access home equity to increase income and standard of living with 10 indicating complete willingness to access home equity. In Figure 12, approximately 36% are very comfortable (rank 7–10) with accessing home equity while about 29% are not willing (rank 0–3) to utilize home equity to supplement income or standard of living. Finally, 18% are completely neutral with a ranking of 5. Next, we divide the sample by those with a financial planner and those without a financial planner. Thirty-seven percent of those with financial planners are very comfortable with accessing home equity compared to 35% of those without a financial planner. Thirty-one percent of respondents with financial planners are unwilling to utilize home equity compared to 27% of respondents without financial planners. It appears that having a financial planner does not influence consumers' willingness to access home equity (Pearson χ^2 p -value = 0.448).

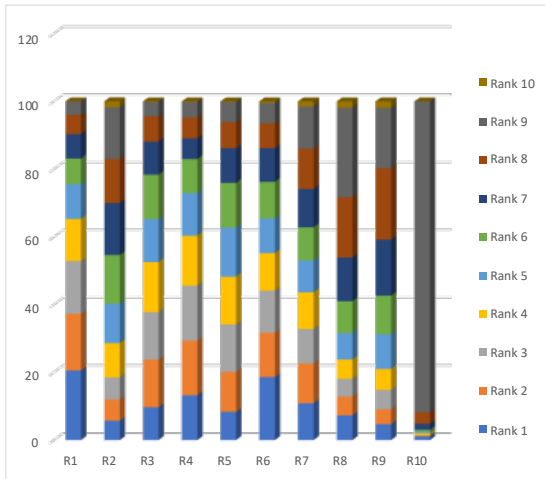
Next, we evaluate if there are gender and location differences associated with willingness to access home equity. We find that 40% of males are willing to access home equity compared to 32% of females. The Pearson χ^2 is statistically significant at the 5% level ($p = 0.05$). Similarly, 38% of urban consumers are highly to extremely willing to access home equity compared to 29% of rural consumers. Also, 26% of urban consumers are extremely unwilling (rating 0–3) to access home equity versus 36% of rural consumers (Figure 13). The Pearson χ^2 test for difference is statistically significant at the 1% level ($p = 0.005$) indicating a significant difference between urban and rural consumers.

Finally, the Pearson χ^2 test for difference between those consumers who are retired versus those not retired is statistically significant at the 1% level ($p = 0.000$). For example, 42% of those retired are not likely (rating 0–3) to access home equity compared to 23% of those not retired. On the other hand, 27% of those retired are highly likely to extremely likely to access home equity (rating 7–10) versus 40% of those not retired (Figure 14).



Retirement

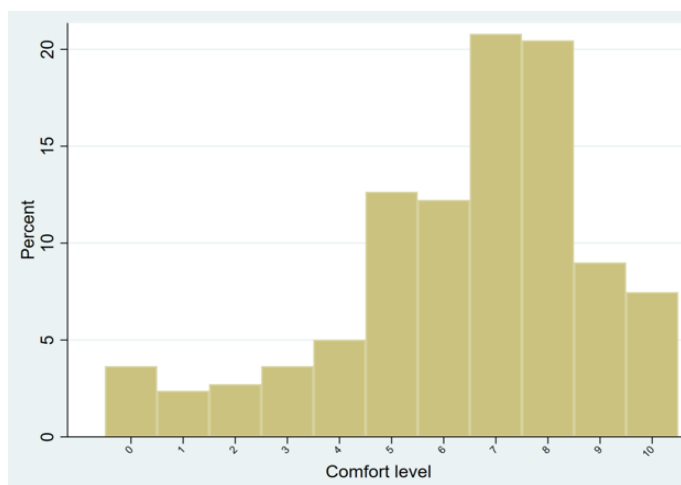
Figure 15: Factors influencing retirement

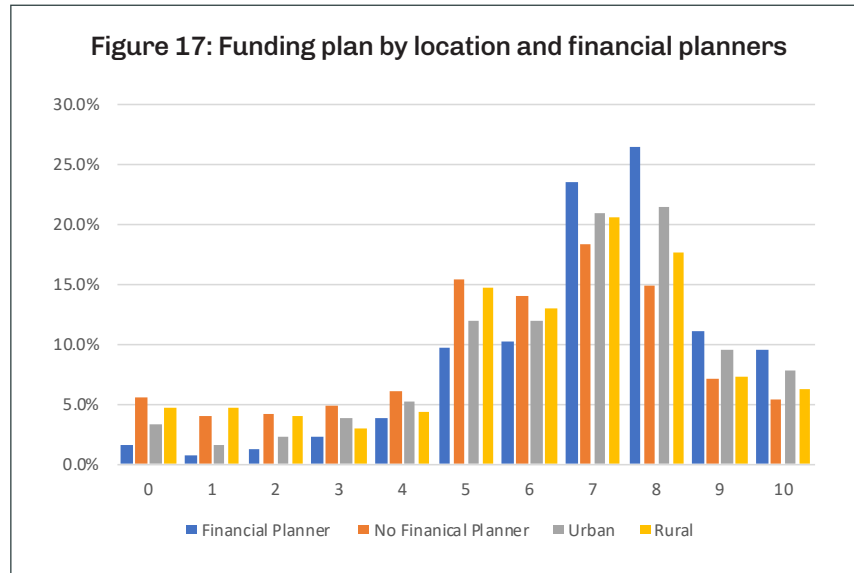


R1	Having enough money saved to live comfortably for the full length of your retirement
R2	Being able to fund your retirement and still leave an inheritance to your children
R3	Your ability to access government retirement benefits (Canada Pension Plan/Quebec Pension Plan and OAS)
R4	Your financial assets and retirement income
R5	Having enough money to afford your desired housing arrangements, e.g., a home of your choice, your preferred retirement village, etc.
R6	Your health or the health of your partner
R7	Your eligibility to draw on your employer-sponsored pension
R8	Job loss/loss of employment
R9	Selling my house to fund retirement
R10	Other (please specify)

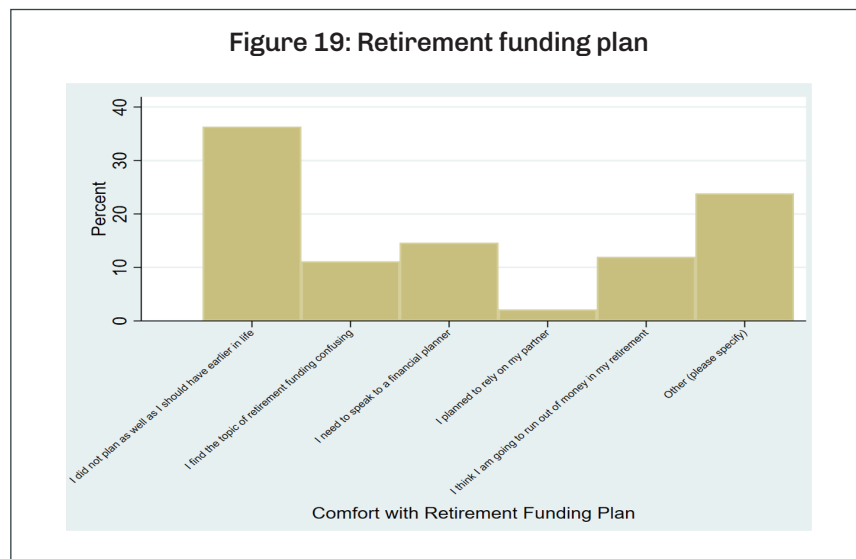
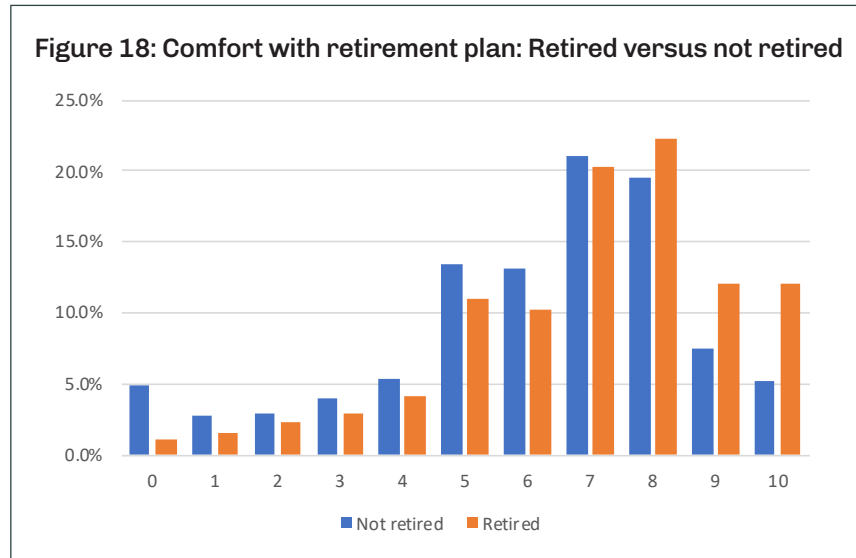
We asked the participants “Which of the following factors were considerations that influenced when you retired or will influence when you will retire?” The results are presented in Figure 15. Having enough savings to live comfortably during the full length of retirement (R1) is the number one factor influencing retirement decisions, followed by their health or the health of their partner (R6), their financial assets and retirement income (R4), and their eligibility to draw on their employer-sponsored pension (R7). Factors that are least likely to impact retirement decisions are being able to fund your retirement and still leave an inheritance to your children (R2), selling my house to fund retirement (R9), and other reasons (R10). Participants did not provide the other reasons even though they were asked to specify.

Figure 16: Comfort with retirement funding plan

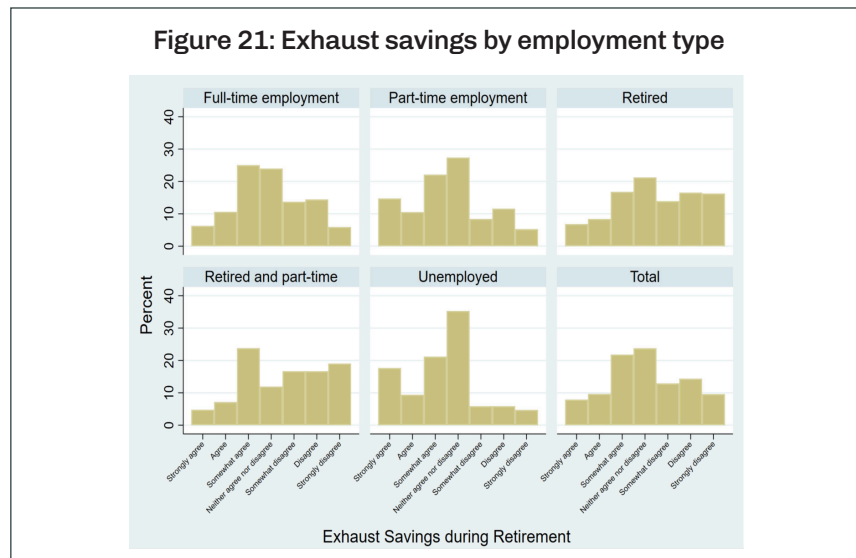
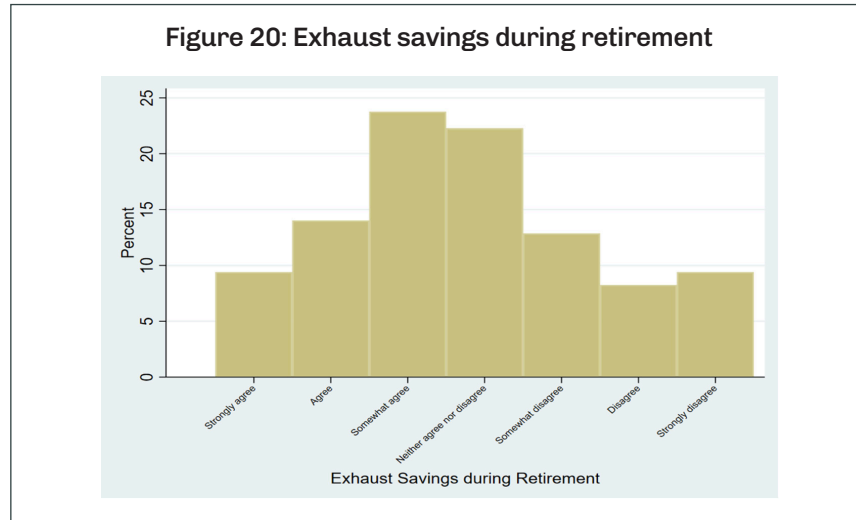




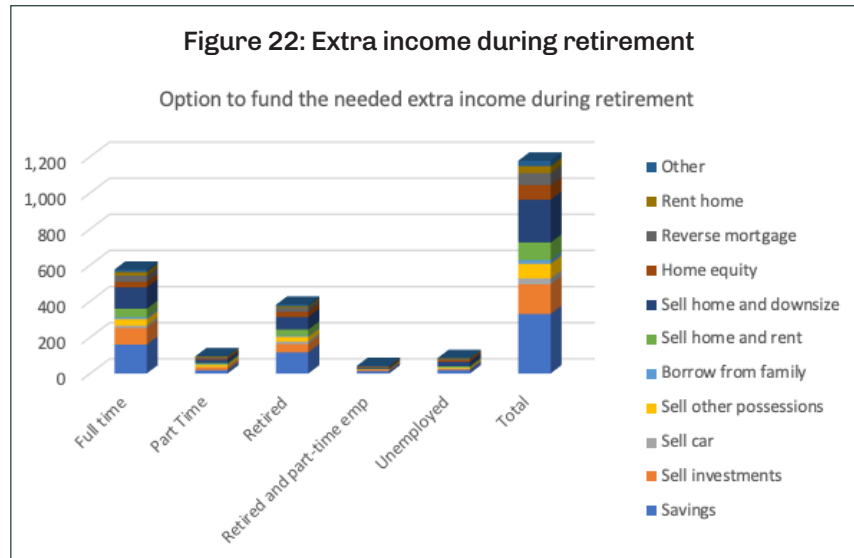
In Figure 16, we report participants' response regarding their comfort level with retirement funding plan. More than 58% of participants are very comfortable (rank 7–10) with their retirement funding plan. On the other hand, 12% are not comfortable with their retirement plan (rank 0–3) while the remainder are relatively neutral (30%, rank 4–6). In terms of those with financial planners and without financial planners, the test for difference for consumers with a financial planner versus those without a financial planner is statistically significant at the 1% level (Pearson χ^2 p -value = 0.000). Seventy percent of consumers with a financial planner rate that they are highly to extremely comfortable with their retirement plan (rating 7–10) compared to 46% of those without a financial planner. Furthermore, only 6% of consumers with a financial planner are not comfortable (rating 0–3) with their retirement funding plans compared to 19% of consumers without a financial planner. In terms of gender, the Pearson χ^2 test for difference is statistically significant at the 1% level ($p = 0.000$). Sixty-six percent of males are comfortable with retirement funding plan compared to 51% of females (rating 7–10). Similarly, only 7% of males are not comfortable with retirement funding plans (rating 0–3) compared to 17% of females. Similarly, 60% of urban consumers are comfortable to extremely comfortable with retirement funding plan compared to 52% of rural consumers. The Pearson χ^2 is statistically significant at the 5% level ($p = 0.05$) (Figure 17). Finally, retired individuals are relatively more comfortable (rating 7–10) with their retirement plan (67%) versus not-retired individuals (53%). Furthermore, only 8% of retired consumers are not comfortable with retirement funding plan compared to 15% of not-retired consumers (Figure 18). The Pearson χ^2 is statistically significant at the 1% level. This appears that financial planners make a significant difference in retirement funding plans.



Next, we asked participants to “think about how comfortable you are with your retirement plans” and to select from a list all that is applicable to them. Note the percentage can be greater than 100% as participants were allowed to select multiple choices from the list. In Figure 19, 36% of participants indicate that they did not plan as well as they should have earlier in life, 14% need to speak to a financial planner, 12% think that they are going to run out of money in retirement, and 11% find the topic of retirement funding confusing. In terms of those with financial planners, 29% of participants indicate that they did not plan as well as they should have earlier in life compared to 43% of those without a financial planner. Similarly, 10% of consumers with a financial planner think they will run out of money in retirement compared to 14% of consumers without a financial planner. Furthermore, for consumers with a financial planner, 17% need to speak with a planner about retirement but have not done so yet compared to 12% of those consumers without a financial planner. There is a statistically significant difference for consumers with financial planners compared to those without financial planners (Pearson χ^2 p -value = 0.000). In terms of the other options (need to speak to a financial planner, going to run out of money in retirement, and find the topic retirement fund confusing), having a financial planner did not affect the results. The Pearson χ^2 test for difference by gender is not statistically significant. As for location, there is no statistical difference between urban and rural consumers. However, the Pearson χ^2 test for difference between consumers who are retired and those who are not is statistically significant ($p = 0.000$).



We asked participants to rank their agreement with the following statement: “I expect to exhaust my savings during my retirement.” In Figure 20, most of the participants (47%) strongly agree, agree, or somewhat agree with the statement. Twenty-two percent of the participants are neutral, and the remaining 31% strongly disagree to somewhat disagree with the statement. Exhausting savings during retirement can potentially jeopardize retirement plan. These individuals should consider alternative sources of fund such as using home equity to fund any potential shortfall in retirement funding. For those consumers with a financial planner, 33% strongly agree to somewhat agree that they will exhaust their savings during retirement compared to 45% of those without a financial planner. Similarly, 46% of consumers with a financial planner strongly disagree to somewhat disagree with the statement of exhausting savings during retirement compared to only 18% of those without a financial planner. It appears consumers with a financial planner are better prepared for retirement as fewer are likely to exhaust all savings during retirement. Next, in Figure 21, we further divide the responses by employment type. Those participants who are full-time employed are very similar to the overall total sample. As for retired individuals, 31% strongly agree, agree, or somewhat agree with the statement of exhausting savings during retirement, 21% are neutral, and 48% do not expect to exhaust their savings during retirement.



In Figure 22, we report participants' willingness to utilize various home equity release products to provide additional income during retirement. We also break down the results by employment status. Full-time employed and retired individuals account for about 80% of the sample, and the results from these two categories mirror the full-sample results. Utilizing savings (28%) was the number one-ranked option to fund extra income during retirement, followed by selling the home and downsizing to a smaller house (20%), selling investments (14%), and selling the home and rent (8%). Products like a reverse mortgage and HELOC account for only 6% and 7%, respectively. This is consistent with the prior literature in other countries where a reverse mortgage or similar products are severely underutilized. It appears from participants' ranking that they are likely to choose options that are perceived to be simple to understand and less risky. However, selling one residential property and purchasing another can be fairly involved and expensive due to the costs and efforts associated with realtors, lawyers, and home insurers. We did not require participants to consider tax implications of these alternatives. For example, selling investments may have capital gains tax implications if the investments are held outside of a Tax-Free Savings Account or Registered Retirement Savings Plan account compared to selling a primary residence with no capital gains tax implication.

Attitudes toward Home

We asked a series of questions to gauge participants' attitude toward their home. First, we wanted to determine how long participants have lived in their current home. Residing in a house for a long period is likely to result in a strong emotional attachment to that home. In Figure 23, the majority of the sample participants indicated that they have lived in their current home for 15 years or less.

Next, we asked participants to indicate their level of agreement with the statement "I see my current home as the place I would like to stay during my retirement" and report the results in Figure 24. Forty-two percent of participants strongly agree to somewhat agree with the statement while 39% strongly disagree to somewhat disagree with the statement. Those who are likely to stay in their home during retirement are likely to have a stronger emotional attachment to their home.

In Figure 25, we report participant response to whether they will pass on their home to their children. Passing the home to children or heirs is an indication of strong attachment to one's home. The results are consistent with those reported in Figure 24. There is a relatively even split between those who would like to pass on their property to their children and those who are not likely to do so.

Finally, participants were asked whether their current home could potentially be used for retirement funding. In Figure 26, 22% of respondents strongly agree, 4% agree, and 20% somewhat agree with using their current home to potentially fund retirement while 32% are neutral and the remaining 22% strongly disagree to somewhat disagree. The results appear to be consistent with those reported in Figures 24 and 25, where approximately 40% of participants are neither going to stay in their home during retirement nor pass on their home to their children.

Figure 23: Years living in the home

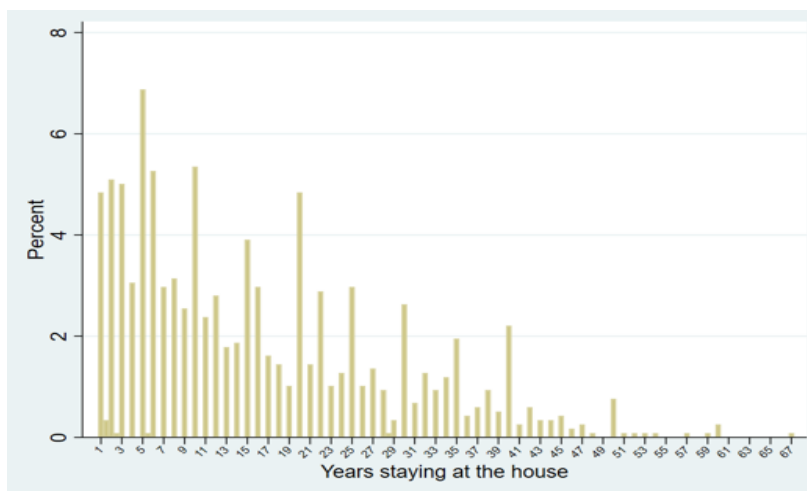


Figure 24: Staying in current home during retirement

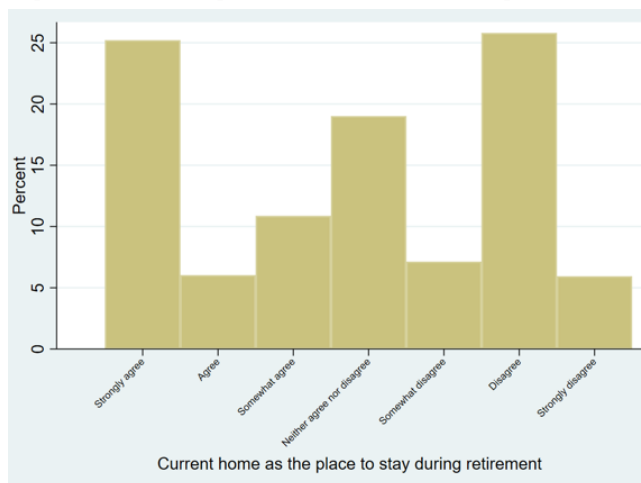
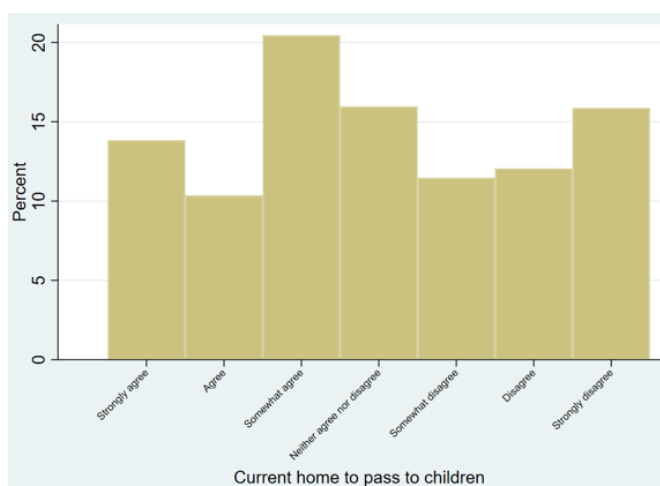
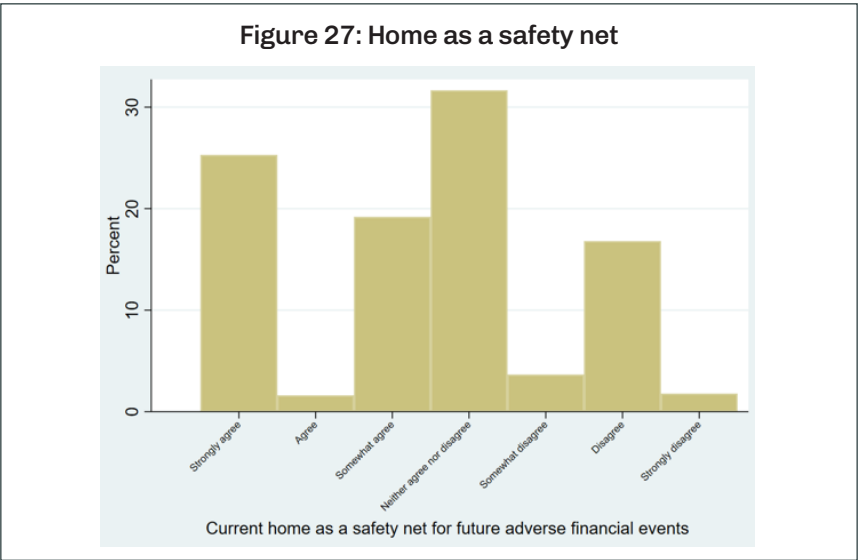
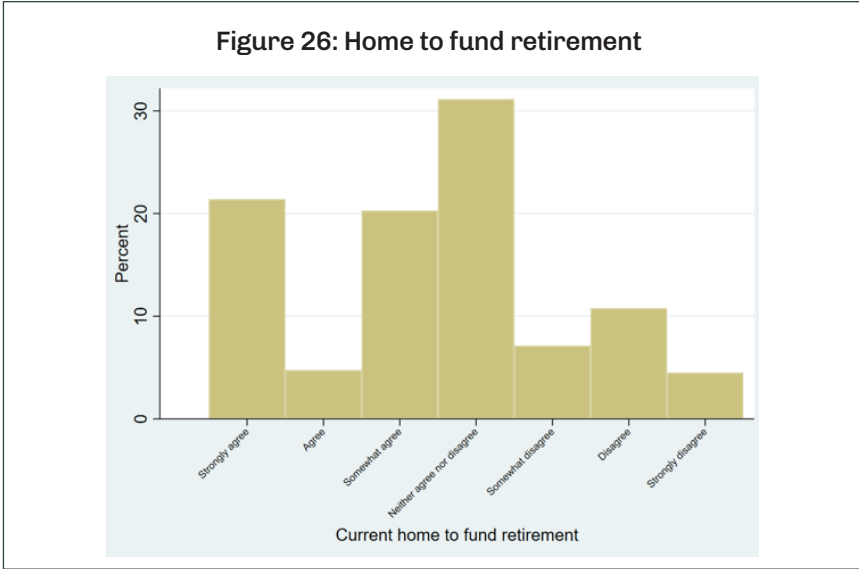
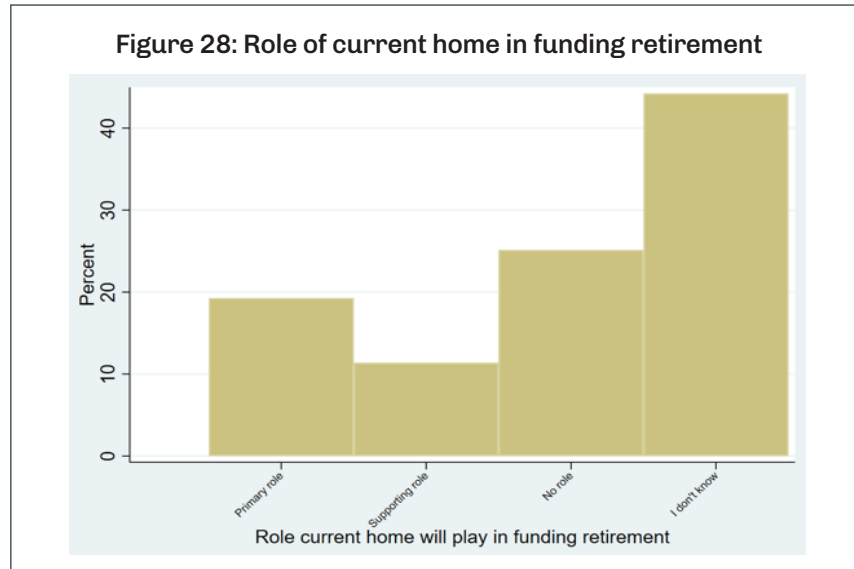


Figure 25: Pass home to children





Next, we asked participants their level of agreement with the following statement: “I see my current home as a safety net that could help me deal with future adverse financial events.” In Figure 27, 25% strongly agree, 2% agree, and 19% somewhat agree with the statement. The majority of participants are neutral (32%) while 4% somewhat disagree, 16% disagree, and 2% strongly disagree with using their current home as a safety net against adverse financial events.

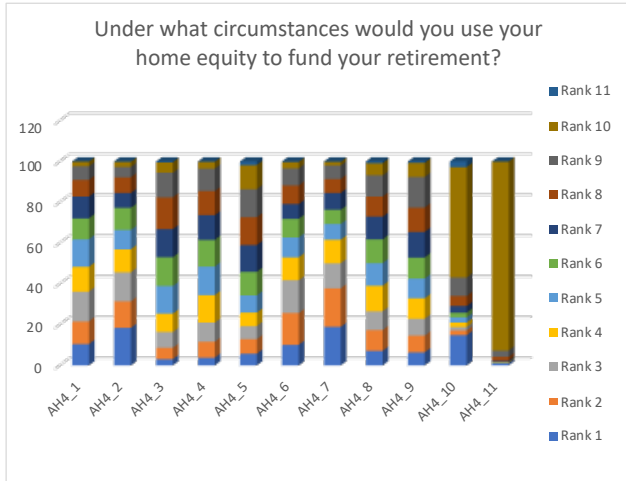


Next, we asked participants to indicate the role their current home will play in funding retirement. In Figure 28, the majority of participants (44%) did not think of their home as a way to fund retirement, 26% indicate that their home will not play a role in funding retirement and that they will fund their retirement in other ways, 19% indicate that their home will play a primary role while 11% indicate that it will play a supporting role as they will also be relying on other sources of income. The results in Figure 28 are consistent with the findings in Figures 24–27.

Our final question designed to gauge attitudes toward residential property asked participants, “Under what circumstances would you consider using your home equity to fund your retirement?” Participants were asked to rank from a list of 11 choices. In Figure 29, participants ranked “I needed funds to pay for care, nursing, or support services” (18.93%), “If I needed money for living expenses/regular bills” (18.42%), “I would not use my home equity to fund my retirement under any circumstances” (14.86%), “If I needed to pay for repairs, renovations, or modifications to my home” (10.44%), and “If I had or expected to have a medical bill to pay” (10.1%) as their first choice in utilizing home equity to fund retirement.

Overall, it appears that about 35%–40% of participants have some strong attachment to their home and are likely to pass it on to their heirs. A similar number of participants appears not strongly emotionally attached to their home and are likely to utilize their home to fund retirement income if the need arises.

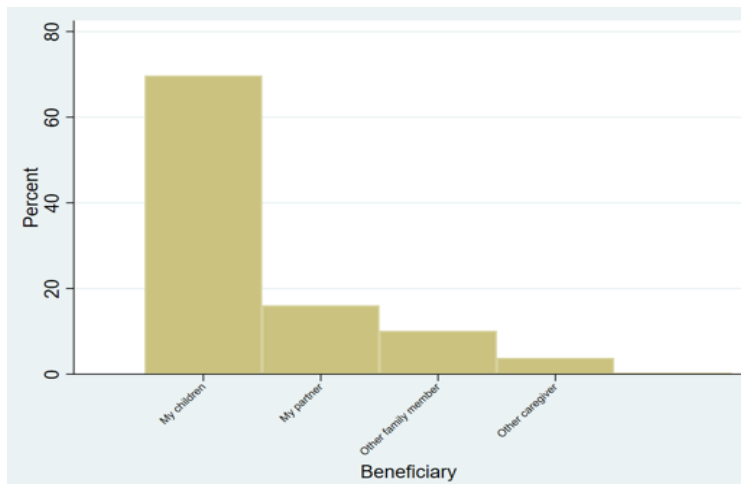
Figure 29: Circumstance to use home equity to fund retirement

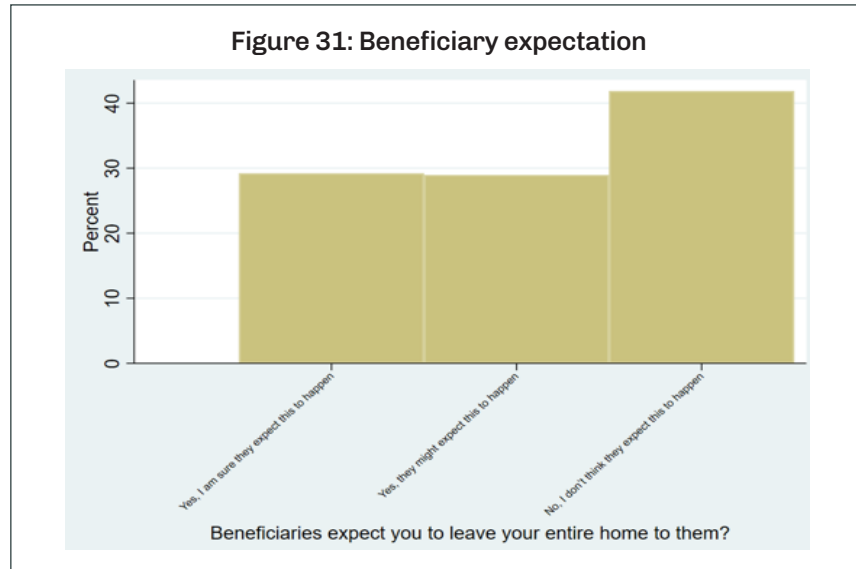


Option 1	If I needed to pay for repairs, renovations, or modifications to my home
Option 2	If I needed money for living expenses/regular bills
Option 3	If I needed to repair or replace my car
Option 4	If I needed money to replace home appliances, e.g., fridge, washing machine, etc.
Option 5	If I wanted to give some money to my children/grandchildren
Option 6	If I had or expected to have a medical bill to pay
Option 7	If I needed funds to pay for care, nursing, or support services
Option 8	If I wanted to clear some debts
Option 9	If I just wanted some extra cash so I could enjoy a better lifestyle
Option 10	I would not use my home equity to fund my retirement under any circumstances
Option 11	Other

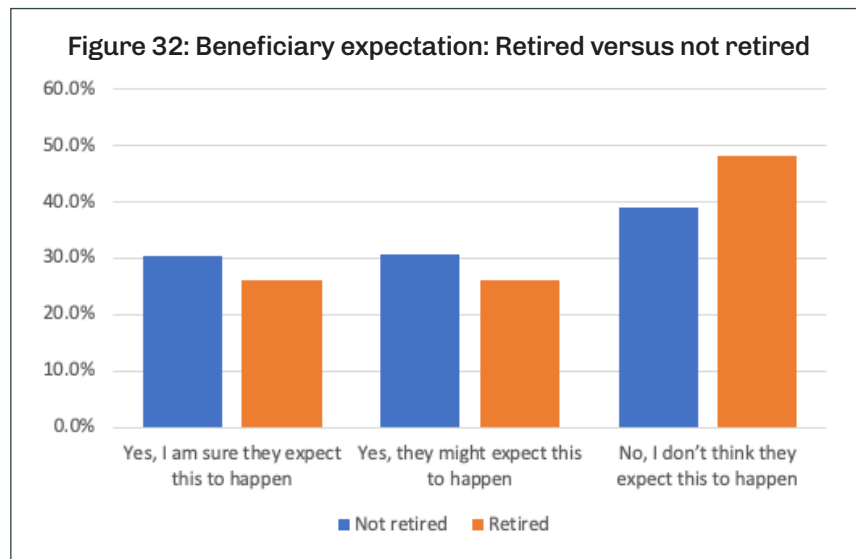
Beneficiary

Figure 30: Beneficiary



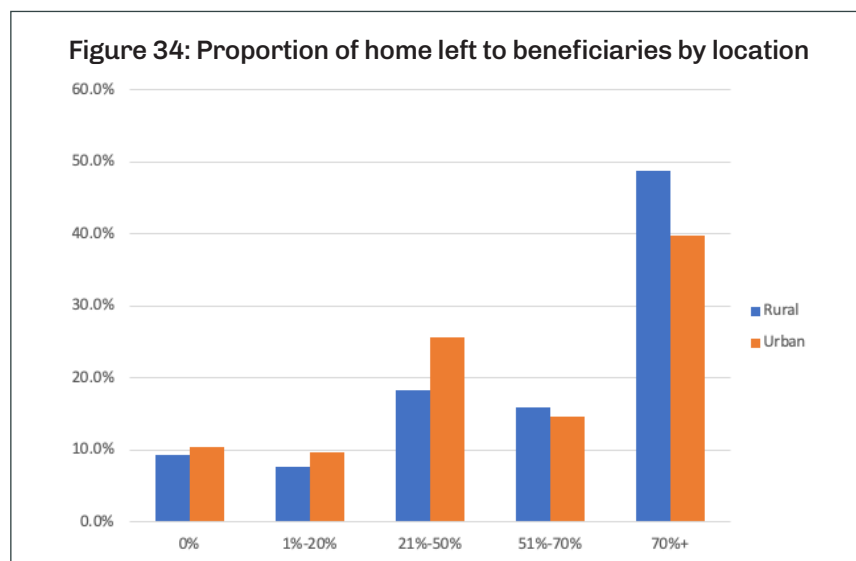
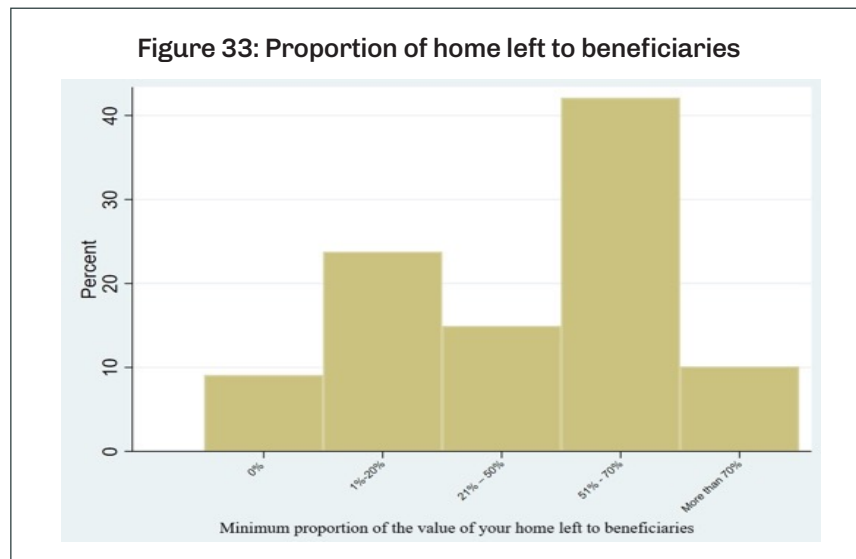


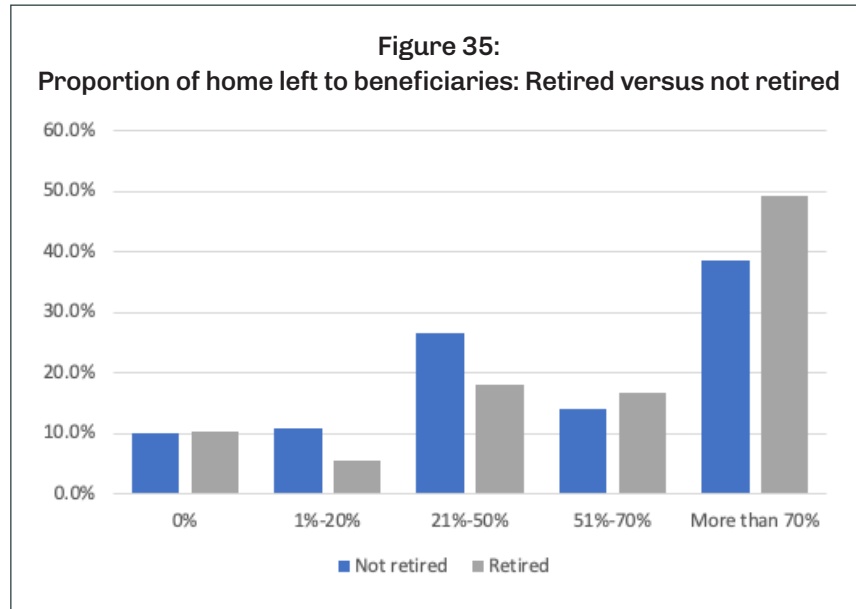
In Figure 30, participant beneficiaries are reported. The majority of beneficiaries are children (70%), followed by partners (16%) and other family members (10%). Next, we asked participants if their beneficiaries are expecting them to leave their entire home to them, and we report the findings in Figure 31. The majority did not think beneficiaries expect to inherit the entire home (43%) while 29% expect this to happen and the remaining 28% might expect to inherit the entire residential property. Furthermore, the Pearson χ^2 test for difference between individuals who are retired and those who are not retired is statistically significant ($p = 0.012$). In Figure 32, 48% of retired individuals indicate that their heir is not expecting them to leave their entire home to them compared to 39% of not-retired individuals.



Next, we asked participants to indicate the minimum proportion of their home they would be comfortable leaving to their beneficiaries and report the results in Figure 33. Nine percent of participants indicate that they would be comfortable leaving zero proportion of their residential property to beneficiaries, 24% would be comfortable leaving 1%–20%, 15% would be comfortable leaving 21%–51%, 42% would be comfortable leaving a minimum of 51%–71%, and the remaining 10% indicate that they would be comfortable leaving more than 70%. The majority of participants (90%) indicate that they are comfortable leaving a minimum of less than 71% of their home to beneficiaries. Based on this evidence, it appears that consumers are open to the idea of utilizing some portion of

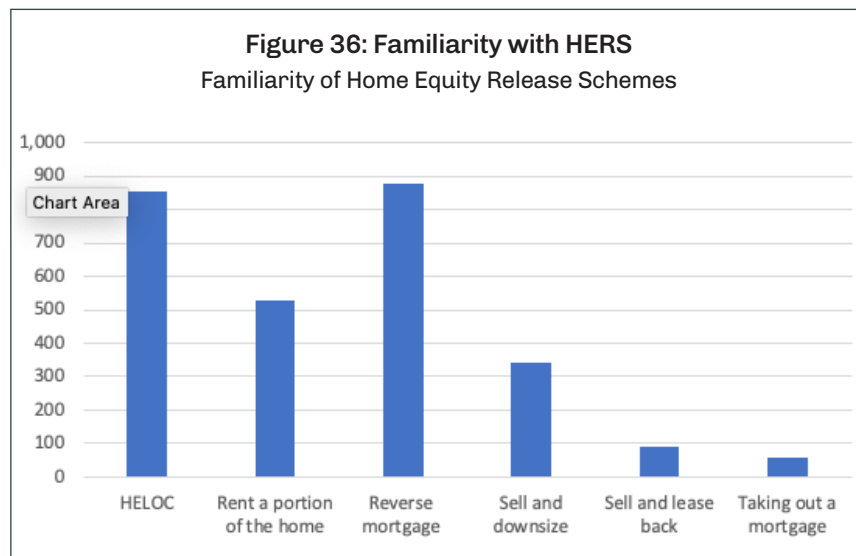
their home whether to fund retirement, for emergencies, or other expenses. The Pearson χ^2 test for difference is not statistically significant for gender ($p = 0.88$) or whether consumers have a financial planner or not ($p = 0.49$). However, 40% of urban consumers indicate that they are comfortable leaving heirs more than 70% of the value of their home versus 49% of rural consumers. The Pearson χ^2 is statistically significant at the 5% level ($p = 0.027$) (Figure 34). Similarly, the Pearson χ^2 test indicates that there is a statistically significant difference between retired and not-retired individuals. In Figure 35, 49% of retired individuals expect to leave more than 70% of their homes to beneficiaries compared to 37% of not-retired individuals. On the other hand, 27% of not-retired individuals expect to leave 21%–50% of the current home to their beneficiaries compared to 18% of retired individuals.

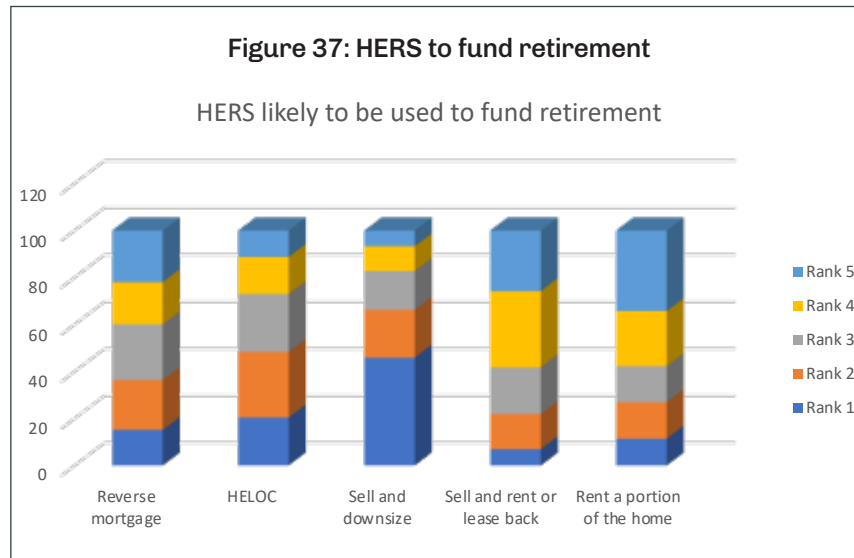




HERS

One of the primary goals of the research is to assess consumers' attitudes toward utilizing residential property to fund retirement income and their knowledge of the various options/products available to extract cash flows from equity built up in residential property. Hence, we asked participants to select which HERS they are familiar with. Participants were asked to select multiple options. The results are reported in Figure 36. Seventy-four percent of participants are familiar with a reverse mortgage, 72% with a HELOC, 45% with renting a portion of their home, 29% with sell and downsize, 8% with sale and lease back, and 5% with taking out a mortgage (traditional mortgage). Based on the results, consumers are not very familiar with sale of the home and lease back from the buyer as well as using a mortgage as an option to provide income during retirement. Given that consumers are very familiar with a reverse mortgage and HELOC, it appears that these products are well marketed by providers and hence, consumers' perceived knowledge about these products appears high. In addition, renting a portion of the home is very familiar to participants. It is possible that consumers rent a portion of their home (e.g., the basement) prior to retirement, and hence, they are familiar with this opportunity to fund additional retirement income.



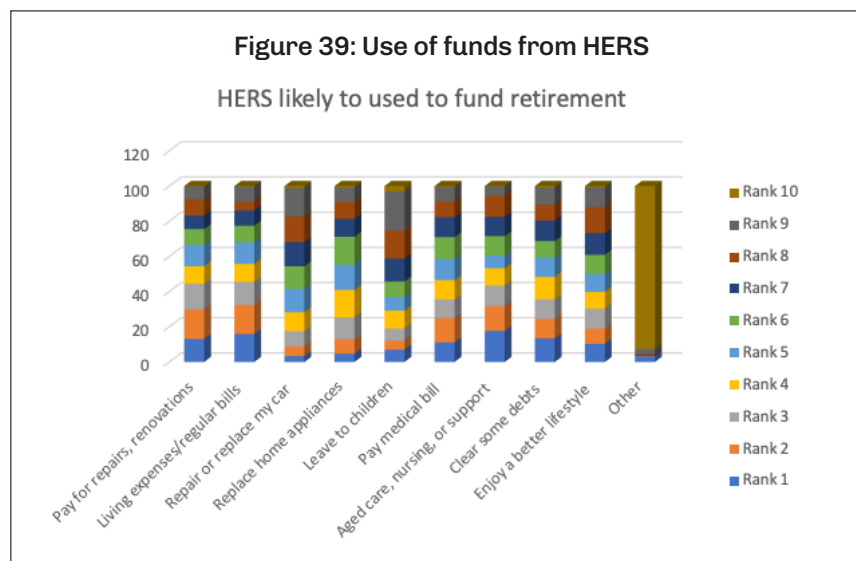
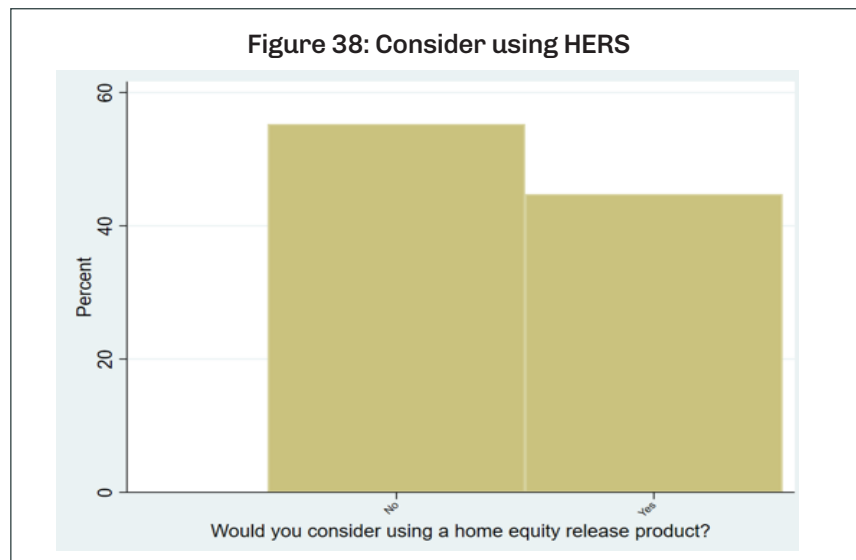


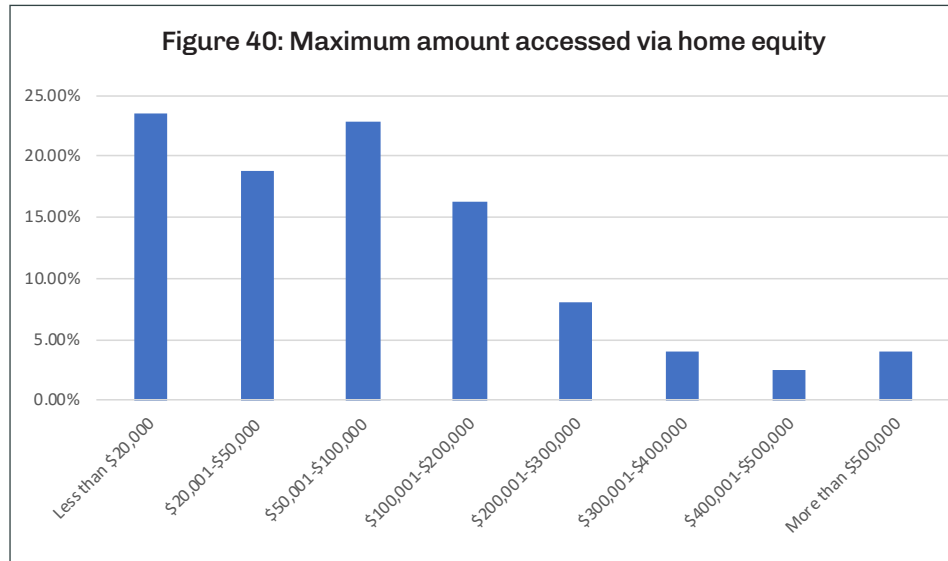
We wanted to determine which HERS options participants are likely to use to fund retirement income. We asked participants the following question: “Assume that you will fund retirement expenses using home equity, which of the following home equity release scheme are you likely to use?” We report our findings in Figure 37. In terms of the number one–ranked home equity release option, 46% of consumers selected sell and downsize, 20% selected HELOC, 15% selected reverse mortgage (15.2%), and 11% selected rent a portion of their home. Furthermore, there is no difference by gender (Pearson χ^2 p -value = 0.72) or whether consumers have a financial planner or not (Pearson χ^2 p -value = 0.95), location (p = 0.34), or retired versus not retired (p = 0.84). As for the second ranked option to fund retirement income, 28% selected HELOC, 21% selected reverse mortgage, and 20% selected sell and downsize. Furthermore, there is no difference by gender (Pearson χ^2 p -value = 0.85) or whether consumers have a financial planner or not (Pearson χ^2 p -value = 0.40). The test is marginally significant for location (p = 0.08). Even though participants ranked reverse mortgage and rent a portion of their home as options/products they are very familiar with, when it comes to utilizing HERSs, the majority did not select these as their first or second choice. It is possible that products like HELOC and reverse mortgage are perceived to be more complex products and risky options compared to the option of selling and downsizing which may be perceived as less complex. In terms of retired versus not retired individuals, the Pearson χ^2 test for the second ranked choice is statistically significant (p = 0.008). For example, 32% of retired individuals selected HELOC as their second choice compared to 26% of not-retired individuals. In comparison, more not-retired individuals selected sell and downsize (25%) as their second choice compared to 23% for retired individuals.

Next, we asked participants, “Would you consider using a home equity release product?” and report the results in Figure 38. Fifty-six percent of participants indicated that they would not consider home equity release products compared to 44% of participants who would consider using them. Forty-eight percent of consumers with a financial planner would consider using a home equity release product compared to 42% of consumers without a financial planner (p = 0.051). Similarly, 46% of urban consumers would consider home equity release products compared to 40% of rural consumers (Pearson χ^2 p -value = 0.04). Also, there is a statistical difference between retired and not-retired individuals (p = 0.00). For example, only 34% of retired individuals indicated that they would consider using a home equity release product compared to 50% of not-retired individuals. However, there is no statistical difference for gender.

Participants who selected yes to considering using home equity release products were asked the following question: “Why have you considered using a home equity release product?” They were asked to rank the options from most likely (1) to least likely (10). We report the findings in Figure 39. Individuals indicated the following as their number one–ranked choice for considering the use of home equity: to pay for aged care, nursing, or

support services (17.65%), need money for living expenses/regular bills (15.94%), want to clear some debts (13.47%), the need to pay for repairs, renovations, or modifications to their home(13.09%), have or expected to have a medical bill to pay (11.2%), and just want some extra cash to enjoy a better lifestyle (10.25%). In terms of the second ranked choice, 17% of individuals selected pay for repairs and renovations, 17% selected living expenses or regular bills, 14% selected aged care, nursing, or support services, and 14% selected medical bills. In terms of the lowest rank choices (Rank 9) for utilizing home equity release products, 22% selected give some money to my children/grandchildren, 16% indicated repair or replace car, and 11% selected want some extra cash so I could enjoy a better lifestyle.





Next, we asked participants to select the maximum amount of funds they would be comfortable accessing via home equity release products. In Figure 40, 23% are comfortable accessing a maximum of less than \$20,000 and \$50,000–\$100,000, respectively. Nineteen percent are comfortable accessing a maximum of \$20,000–\$50,000 and 16%, \$100,000–\$200,000. Overall, 65% of consumers are comfortable accessing a maximum of \$100,000 or less. Only 11% of consumers are comfortable accessing more than \$300,000 via home equity release products.

In terms of gender, the Pearson χ^2 test is statistically significant at the 1% level ($p = 0.000$). Similarly, for consumers with a financial planner, the Pearson χ^2 is statistically different from the subsample of consumers without a financial planner (see Figure 41 for details). For example, 70% of female consumers are comfortable accessing a maximum of less than \$100,000 compared to 58% of male consumers. In contrast, only 12% of males and 9% of females are comfortable accessing more than \$300,000. Similar results are observed for consumers with a financial planner and those without a financial planner. Furthermore, the test for difference between urban and rural consumers is statistically significant ($p = 0.000$). In terms of the retired versus not retired, the Pearson χ^2 test is statistically significant ($p = 0.001$). For example, 31% of retired individuals are comfortable with a maximum of less than \$20,000 compared to 20% of not-retired individuals. Similarly, 30% of rural consumers selected a maximum of less than \$20,000 compared to 21% of urban consumers. The majority of consumers are only willing to access \$100,000 or less via home equity release products (see Figures 41 and 42).

These results are consistent with Sinai and Soules (2007). The authors show that even though homeowners have considerable housing equity that they can borrow against, they borrow significantly less than what standard measures of housing equity would imply using a reverse mortgage. However, the amount borrowed does increase with age because lenders do not usually have to wait as long before being repaid. Sinai and Soules suggest several reasons for underutilization of home equity to fund retirement income via a reverse mortgage. First, legal and marketing considerations require that lenders collect the lesser of their debt position or the house value. Hence, lenders reduce the initial loan amount to be relatively confident that the house value will exceed the debt position at the time of death. Second, problems of adverse selection (long-lived borrowers) and moral hazard (borrowers do not maintain their houses) also reduce the amount lenders are willing to lend.

Finally, current reverse mortgage markets might also suffer from other early-stage problems of a new financial product such as thinness or lack of familiarity.

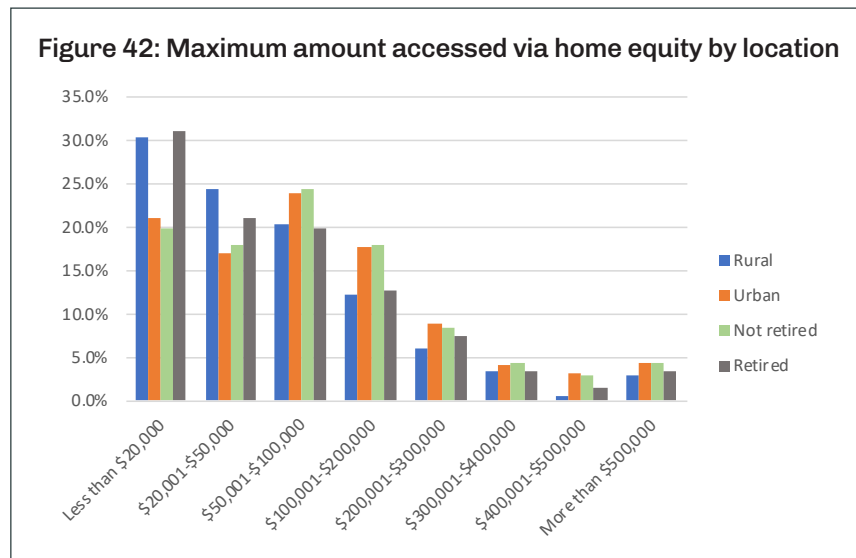
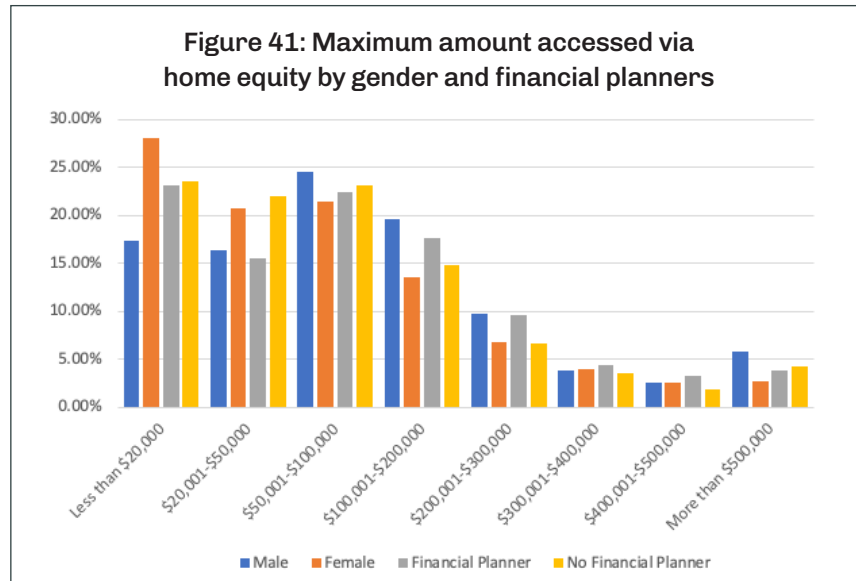
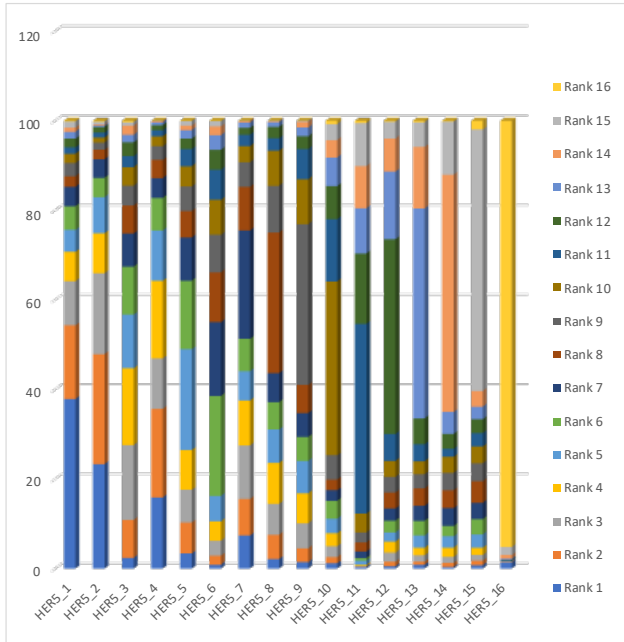


Figure 43: Reasons for not considering HERS



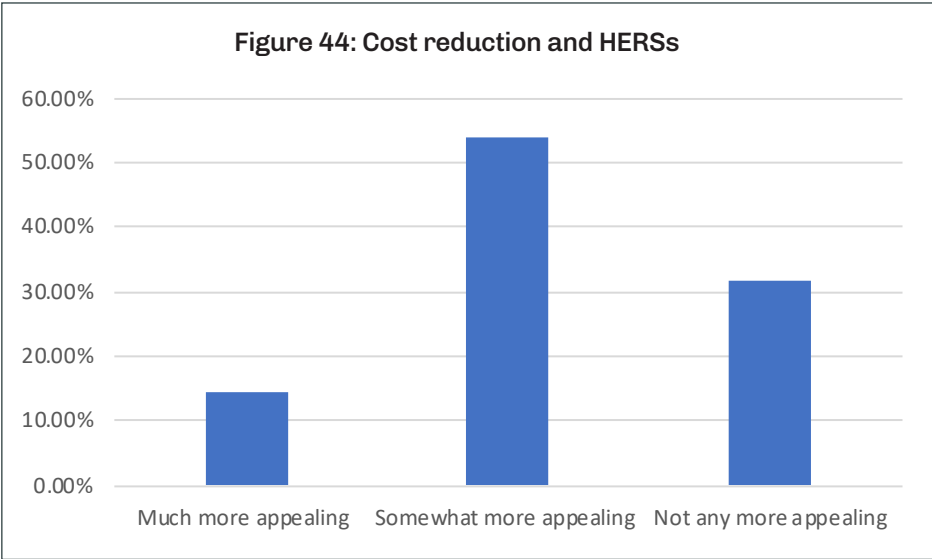
Rank 1	Lack of knowledge
Rank 2	Able to fund retirement with other means
Rank 3	Lack of advice from financial planner
Rank 4	I don't think I need the product yet
Rank 5	I am confused about how these products work
Rank 6	I am not able to access the amount I need
Rank 7	I am concerned about going into debt
Rank 8	I am concerned about how much the product is ultimately going to cost
Rank 9	I am concerned about the terms and conditions
Rank 10	I am concerned about the impact it will have on what I am able to leave for my children
Rank 11	I am concerned about what my family and friends will think
Rank 12	I am concerned about the impact it will have on my eligibility for government retirement benefits
Rank 13	I am concerned about what would happen if the value of the loan ended up being greater than the value of my home
Rank 14	I am concerned about being forced to sell my home early
Rank 15	I am concerned about not having enough money left to pay for care or other future needs
Rank 16	Other (please specify)

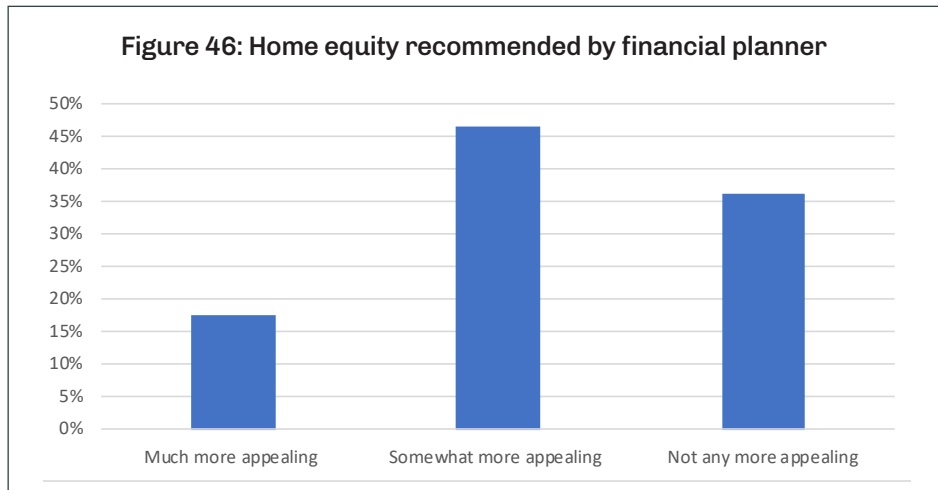
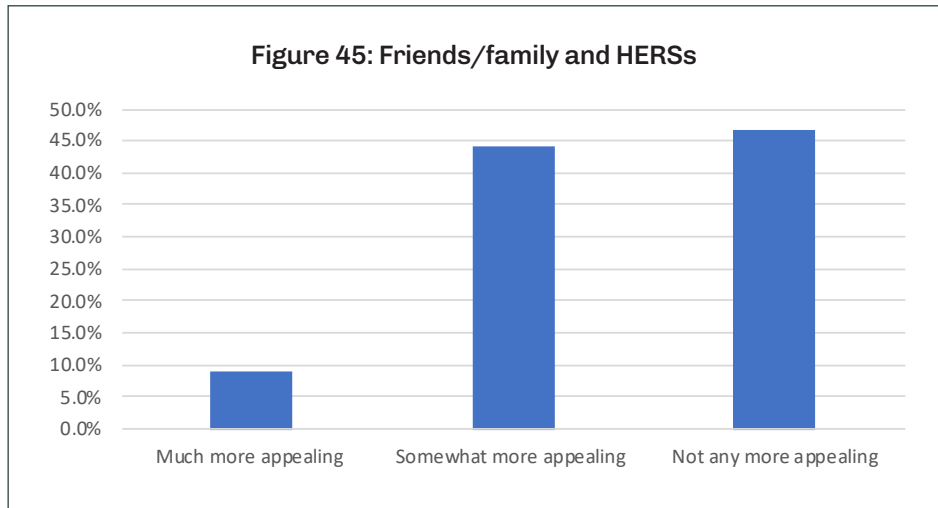
Given that we want to assess consumers' attitudes, knowledge, and comfort with various HERSs to fund retirement, we asked the participants to rank 16 reasons for not considering home equity release products. We report the findings in Figure 43. The number one reason for not considering home equity release products to fund retirement is "lack of knowledge" (38%), followed by participants being "able to fund retirement by other means" (23%), they "don't think [they] need the product yet" (16%), and they are "concerned about going into debt" (7%). At first glance, the results seem counterintuitive given that most of the participants (over 70% in Figure 36) are familiar with a reverse mortgage and HELOC. However, even though they are familiar with these products, a large number of participants (46%) are more likely to use the sell-and-downsize option. Additionally, lack of knowledge is cited as the primary reason for not accessing home equity products in other countries as well such as Australia and the United States. Options such as "I am concerned about the impact it will have on my eligibility for government retirement benefits" (0.5%) and "I am concerned about being forced to sell my home early" (0.3%) are picked as their top choice by less than 1% of consumers.

Next, we asked a series of questions to gauge the impact of the appeal of home equity release products. In Figure 44, we report the results of cost reduction associated with equity release products. Fifty-four percent of participants report that cost reduction would make equity release somewhat more appealing while 31% say it would not make it more appealing and 17% report that cost reduction would make home equity much more appealing. In addition to lack of knowledge, cost appears to be a major hurdle to consumers utilizing home equity release products. In terms of consumers with a financial planner, 15% indicate that home equity would be more appealing, 49% somewhat more appealing, and 36% not more appealing. In contrast, for consumers without a financial planner, 14% view home equity more appealing, 58% somewhat more appealing, and 28% not

more appealing when recommended by a financial advisor. It seems that financial planners have little impact on making HERSs more attractive. However, there seems to be a difference in consumers with and without financial planners in terms of HERSs being not more appealing. In fact, the Pearson χ^2 test for difference is statistically significant ($p = 0.005$). Similarly, the test of retired versus not-retired individuals is statistically significant ($p = 0.000$). For example, reduction in costs would make home equity release products more appealing (14%) and somewhat more appealing (57%) to not-retired individuals compared to 15% indicating that it would be more appealing and 43% somewhat more appealing for retired individuals. However, the tests for difference by gender or location are not significant.

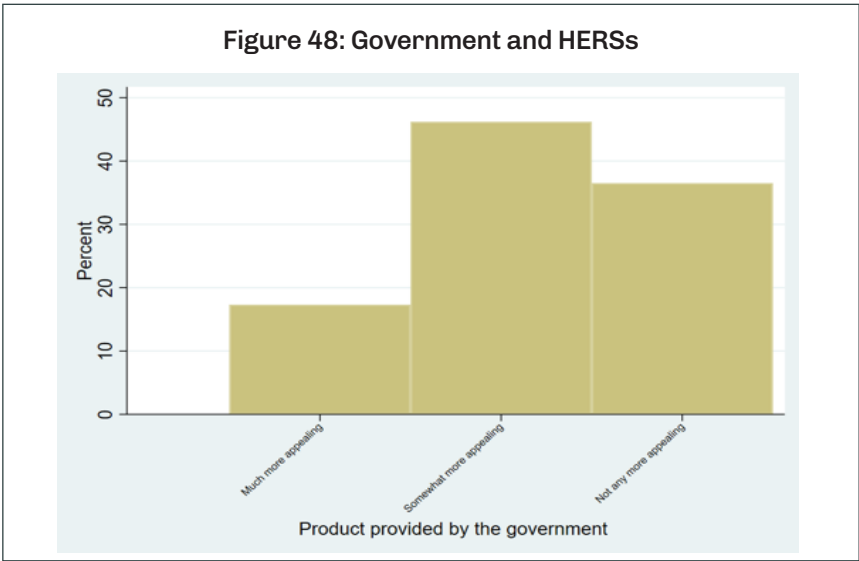
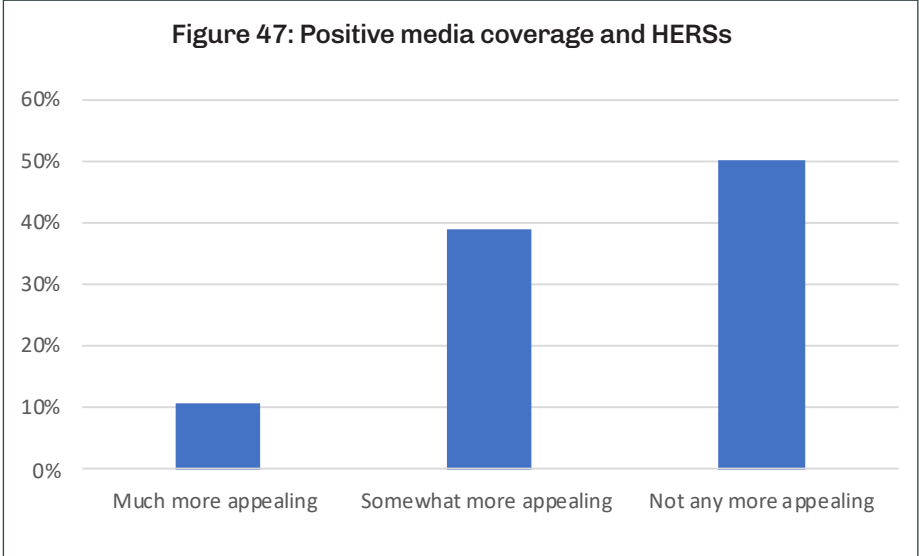
Figure 45 shows that friend or family recommendation has very little influence on making home equity much more appealing (9%), 44% somewhat more appealing, and 47% not more appealing. The test for difference is not statistically significant for gender or financial planner. However, 44% of urban consumers indicate that recommendation by friends or family would not make home equity products more appealing compared to 54% of rural consumers. Forty-six percent of urban consumers feel that a recommendation by friends or family would make home equity products somewhat more appealing versus 38% of rural consumers (Pearson χ^2 p -value = 0.014). Similarly, cost reduction is viewed differently by retired and not-retired individuals (Pearson χ^2 p -value = 0.00). For example, 56% of retired individuals feel that a recommendation by friends or family would not make home equity products more appealing compared to 42% of not-retired individual. Also, 48% of not-retired individuals indicate that a recommendation by friends or family would make home equity somewhat more appealing compared to 36% of retired individuals.





In Figure 46, we report participants' response to the appeal of home equity when it is recommended by a financial planner. Seventeen percent agree that home equity release products would be more appealing if they are recommended by a financial planner compared to 36% of respondents reporting that these products would not be any more appealing. The remaining 46% agree that these products would be somewhat more appealing if recommended by a financial planner. The results are aligned with participants' perception that financial planners' knowledge of these products is very high (Figure 53). In terms of consumers with a financial planner, 21% indicate that home equity would be more appealing, 48% somewhat more appealing, and 32% not more appealing if recommended by a financial planner. In contrast, for consumers without a financial planner, 15% would view home equity more appealing, 45% somewhat more appealing, and 40% not more appealing if recommended by a financial planner. The Pearson χ^2 test for difference is statistically significant ($p = 0.002$). Similarly, 45% of retired individuals indicate that having home equity recommended by a financial planner would not be more appealing compared to 32% of not-retired individuals. In contrast, 50% of not-retired individuals feel that home equity recommended by a financial planner would be somewhat more appealing versus 38% for retired individuals. The Pearson χ^2 is statistically significant at the 1% level ($p = 0.000$). However, the tests for difference by gender or location are not significant.

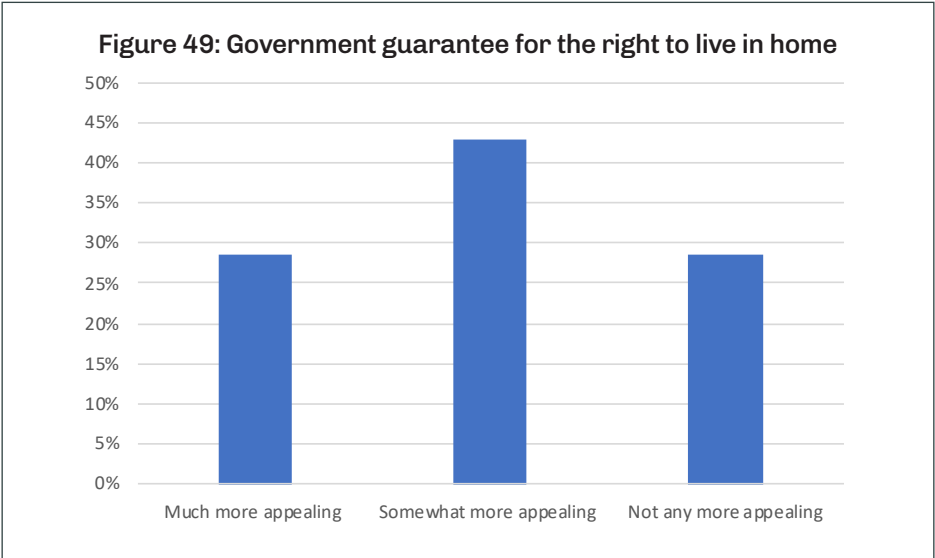
Next, we wanted to find out whether media coverage has an impact on home equity release products' appeal. In Figure 47, we find 50% of participants report that positive media coverage of home equity products do not make them more appealing while 39% agree that they would be somewhat more appealing with positive media coverage and 11% feel that these products would be much more appealing. The Pearson χ^2 test for difference by separating the sample by gender or whether consumers have a financial planner is not statistically significant. However, 48% of urban consumers indicate that media coverage would not make home equity release products more appealing compared to 57% of rural consumers. Similarly, 42% of urban consumers indicate that it would be somewhat more appealing versus 31% of rural consumers (Pearson χ^2 *p*-value = 0.005). There is significant statistical difference between retired versus not-retired individuals (Pearson χ^2 *p*-value = 0.000). For example, 59% of retired individuals indicate that media coverage would not make home equity any more appealing versus 46% of not-retired individuals. In comparison, 42% of not-retired individuals indicate that media coverage would make home equity somewhat more appealing compared to 32% of retired individuals.



In Figure 48, participants report that home equity products would be somewhat appealing or not any more appealing if they are provided by the government. Only 17% indicate that they would be more appealing compared to 37% of individuals who feel that home equity products would not be any more appealing. Furthermore, the Pearson χ^2 test for difference is not statistically significant for gender, location, and whether a

consumer has a financial planner or not. However, there is statistical difference between retired and not-retired individuals (Pearson χ^2 *p*-value = 0.000). For example, 45% of retired individuals feel that home equity products provided by the government would not be any more appealing compared to 32% of not-retired individuals.

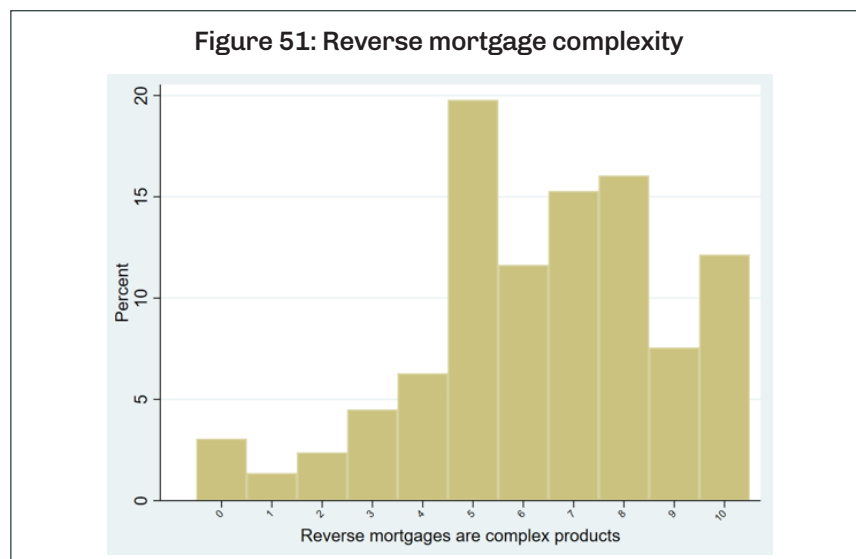
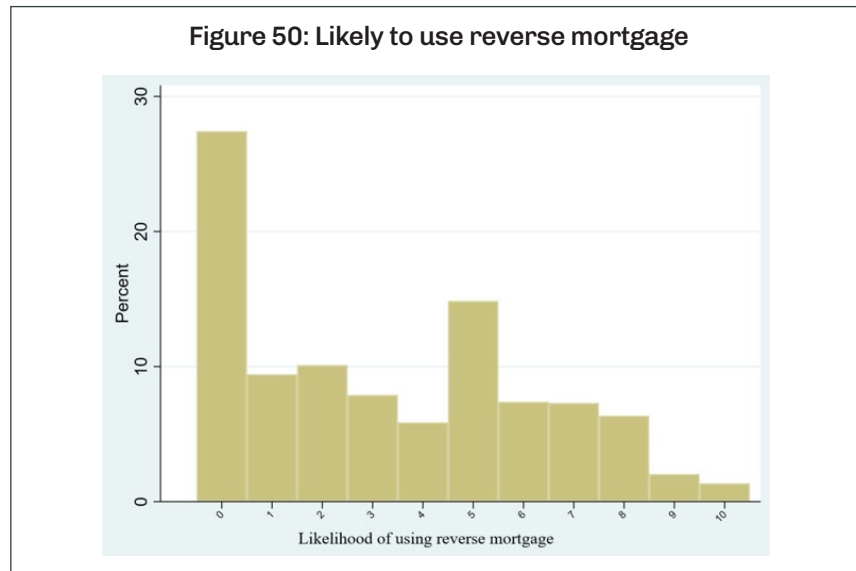
It is possible consumers might be concerned that if they use HERs, they might be forced to leave their home before they wish to do so. As a result, we asked participants to rank their agreement with the following: “If there was a government guarantee applying to equity release products guaranteeing my right to live in my home as long as I wish.” It appears that having government guarantee would make home equity products much more appealing (28% in Figure 49) as well as somewhat appealing (43%) compared to 29% of participants reporting that home equity products would not be any more appealing. If risk of having to leave their residential property earlier than expected is a factor when assessing home equity products, then having government protection against this risk would make home equity products appealing for Canadian consumers (70% much more or somewhat more appealing). The Pearson χ^2 test for difference is not statistically significant for gender, location, and financial planner. However, there is a statistical difference between retired and not-retired individuals. For example, 34% of retired individuals indicate that government guarantee would not make home equity release products any more appealing compared to 26% of not-retired individuals. In contrast, 29% of not-retired individuals feel that a government guarantee would make home equity much more appealing versus 28% of retired individuals.



Next, we asked participants two questions about reverse mortgages, and we report the results in Figures 50 and 51. In Figure 50, we report that the majority of participants are not likely to take out a reverse mortgage. In fact, 27% are extremely unlikely (rating 0) to take out a reverse mortgage and 54% unlikely (rating 0–3) compared to approximately 17% of participants indicating that they are likely to take out a reverse mortgage (rating 7–10). This result is consistent with the results reported in Figure 37 where only 15.2% of participants are likely to use reverse mortgage to fund retirement income compared to 46% for the sell-and-downsize option. Similarly, the results align with those reported in Figure 38, where the majority of participants answer no to the question “Would you consider using a home equity release product?” However, the majority of participants rank their familiarity with a HELOC (74% are familiar) and reverse mortgage (72% are familiar) as very high in Figure 36. Furthermore, having a financial planner did not influence the likelihood of using a reverse mortgage to fund retirement income. In fact, 56% of consumers with a financial planner are unlikely to extremely unlikely to take out a reverse mortgage (rating 0–3) compared to 54% of consumers without a financial planner. Similarly, only 18% of consumers with financial planners are likely to take out a reverse mortgage (rating 7–10) relative to 16% of consumers without a financial planner. Again, financial planners appear to have limited impact on consumers’ willingness to utilize reverse mortgage to fund retirement income (Pearson χ^2 *p*-value = 0.88). Similarly, there is no difference for gender (Pearson χ^2 *p*-value = 0.44). However, 52% of urban consumers are extremely unlikely to use a reverse mortgage compared to 63% of rural consumers (Pearson χ^2 *p*-value = 0.001). Also, only 20% of

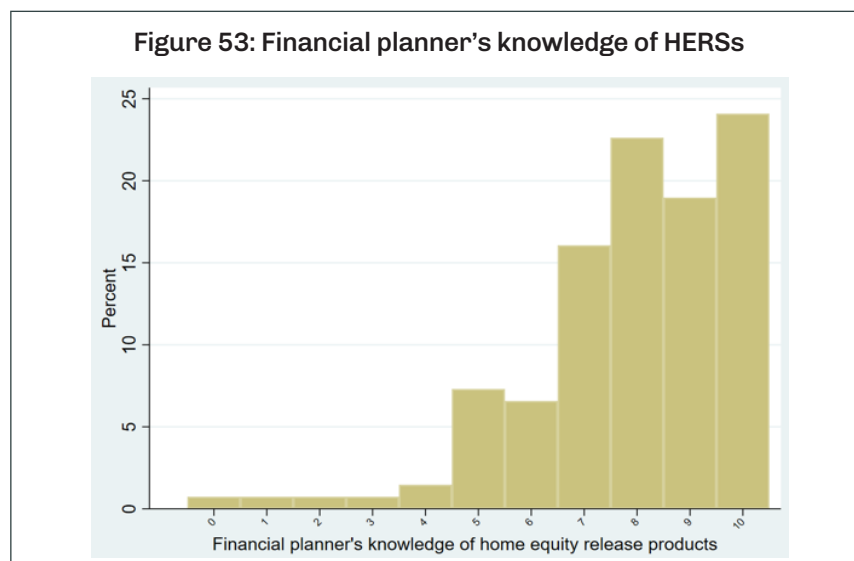
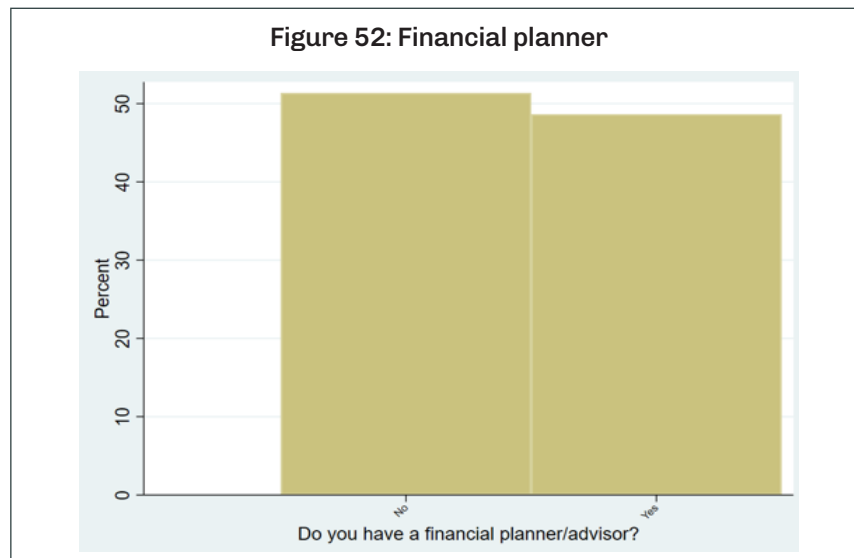
urban consumers are highly likely to extremely likely (rating 7–10) to utilize a reverse mortgage versus 10% of rural consumers. Similar differences are observed for retired and not-retired individuals (Pearson χ^2 p -value = 0.000). For example, 72% of retired individuals are highly unlikely to take out a reverse mortgage (rating 0–3) compared to 46% of not-retired individuals.

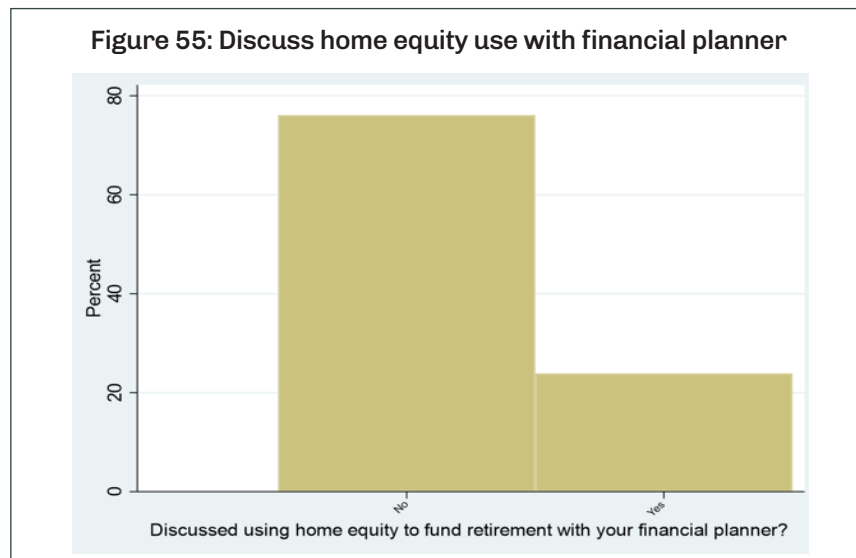
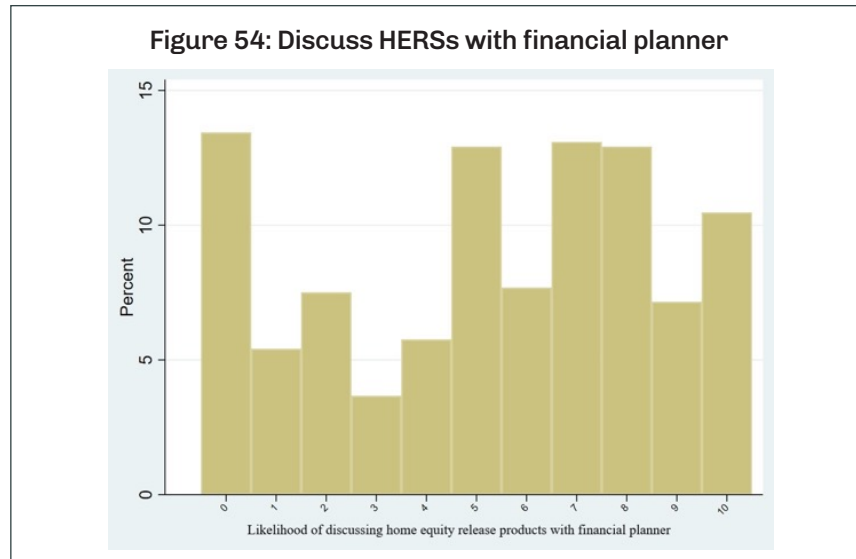
One possibility for low utilization of reverse mortgages is that consumers view it as a complex product. In Figure 51, we report the findings on whether consumers view reverse mortgages as a complex product. We asked participants to rank reverse mortgage complexity on a scale of 0 to 10 with 10 being extremely complex and 0 being not complex at all. Approximately 50% of participants ranked (7–10) a reverse mortgage as a complex product compared to about 10% ranking (0–3) a reverse mortgage as not complex. This helps to explain why consumers are unlikely to utilize reverse mortgage to fund retirement even though they are familiar with a reverse mortgage as a product. For those consumers with a financial planner, 53% rate the complexity of a reverse mortgage as high to extremely high (rating 7–10). Similarly, 49% of consumers without a financial planner view a reverse mortgage as a complex product. Having a financial planner does not reduce the overall perceived complexity of reverse mortgage in the minds of consumers (Pearson χ^2 p -value = 0.26). Similarly, the Pearson χ^2 test for difference by gender is not statistically significant (p = 0.13). Also, there is no difference between urban and rural consumers (Pearson χ^2 p -value = 0.486) or retired and not-retired individuals (Pearson χ^2 p -value = 0.687).



Financial Planner

Next, we asked participants to indicate whether they have a financial planner. In Figure 52, 51% do not have a financial planner while 49% do have financial planner. For those participants who have a financial planner, we asked them to rank their financial planner's knowledge of home equity release products. In Figure 53, 82% of participants ranked their financial planner's knowledge of home equity products as high to very high (rank 7–10). Furthermore, approximately 43% (rank 7–10) of participants are likely to discuss home equity products with their financial planner in general (Figure 54). Retired individuals are less likely to discuss home equity products with their financial planner (43%) compared to 24% of not-retired individuals. The Pearson χ^2 test for difference is statistically significant ($p = 0.001$). However, 78% have not discussed using home equity to fund retirement income with their financial planner. Only 28% have had discussions with their financial planner with regard to using home equity to fund retirement (Figure 55). Furthermore, only 15% of retired individuals have discussed using home equity to fund retirement compared to 28% of not-retired individuals (Pearson χ^2 p -value = 0.001).





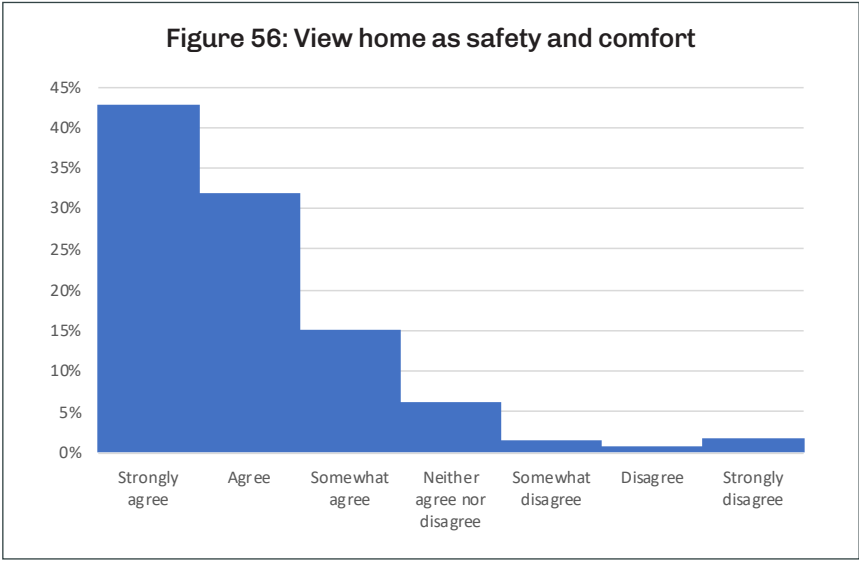
Emotional attachment to a home has been cited in the prior literature as a potential reason for homeowners' reluctance to utilize residential property to fund retirement income. However, prior studies have not empirically examined this line of reasoning. As a result, we asked participants a series of questions to gauge emotional attachment as well as behavioral bias toward residential property. First, we asked participants to indicate their level of agreement with the following question: "My house provides me a sense of belonging, safety, and comfort." In Figure 56, we find that 43% of participants strongly agree with the statement, while 32% agree and 15% somewhat agree. Overall, participants tend to view their home as providing a sense of belonging, safety, and comfort. Hence, this can potentially explain participants' unwillingness to utilize their residential property to fund retirement income. The Pearson χ^2 test for difference is statistically significant for individuals with financial planners. Ninety-one percent of consumers with financial planners strongly agree to somewhat agree with the statement compared to 88% of consumers without financial planners. Similarly, 91% of urban consumers strongly agree to somewhat strongly agree with the statement compared to 87% of rural consumers (Pearson χ^2 p -value = 0.000) and 92% of retired individuals somewhat agree to strongly agree with the statement versus 89% of not-retired individuals (Pearson χ^2 p -value = 0.006). However, the test for difference by gender is not significant.

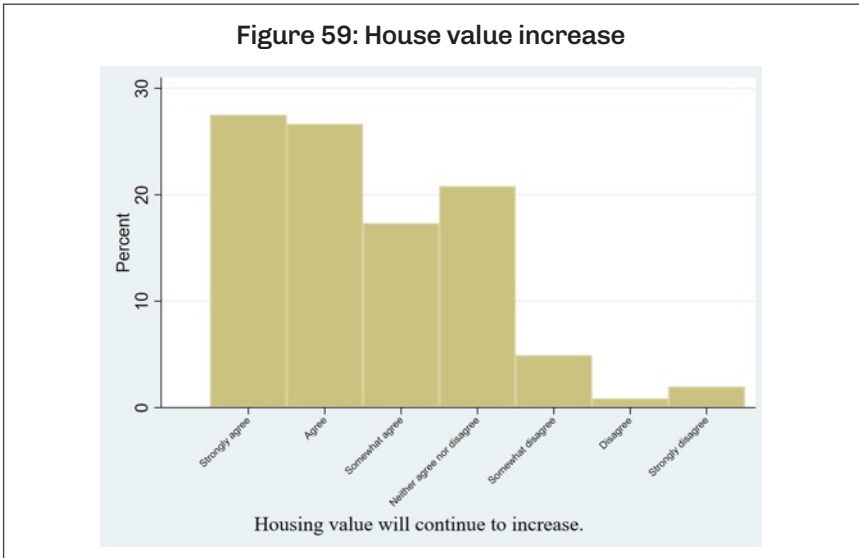
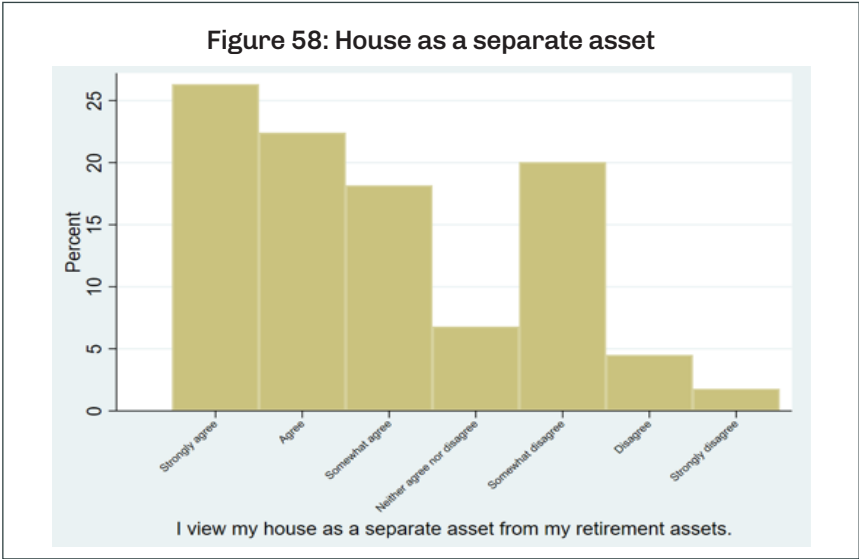
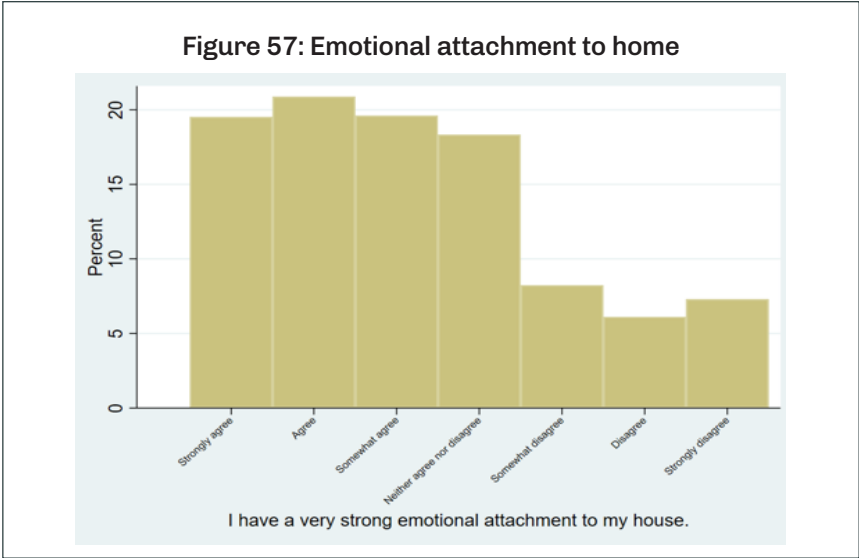
Next, we asked participants about their emotional attachment to their home, and we provide an example (where my child/children was/were raised) as to why one might have an emotional attachment to one's home. In Figure

57, we report that 59% of participants indicate that they have a strong emotional attachment to their home (strongly agree, agree, or somewhat agree). Sixty-four percent of those with a financial planner have a strong emotional attachment to their home compared to 57% of those without a financial planner. The Pearson χ^2 test is not statistically significant for gender, location, participants with a financial planner, or retired versus not retired. This strong emotional attachment to residential property partially explains consumers' reluctance to utilize home equity to fund retirement income. Other reasons include lack of knowledge, perceived product complexity, and the desire to pass assets to heirs.

We asked several questions to further examine behavioral bias toward residential property. Portfolio management theory posits that all assets including property should be assessed as a single portfolio of diversified assets. The mental accounting for assets in separate portfolios is a well-known behavioral bias. As such, we asked participants to indicate their agreement with the statement “I view my house as a separate asset from my retirement assets” and report the results in Figure 58. Approximately 66% of participants displayed mental accounting behavioral bias—that is, accounting for the residential property as a separate asset from their retirement portfolio. Seventy-six percent of consumers with a financial planner display mental accounting behavioral bias compared to 62% of consumers without a financial planner. The Pearson χ^2 test is statistically significant ($p = 0.00$). In terms of gender, the χ^2 test is marginally significant at the 10% level ($p = 0.066$), and 73% of males display mental accounting compared to 65% of females. However, there is no statistical difference between urban and rural consumers or retired and not-retired individuals.

Finally, in Figure 59, we report that 67% of the participants strongly agree, agree, or somewhat agree that house price will continue to increase regardless of underlying economic conditions. Again, participants display behavioral bias (recency bias). In addition, 79% of consumers with a financial planner display recency bias (strongly agree, agree, or somewhat agree that house price will continue to increase regardless of underlying economic conditions) compared to 64% of consumers without a financial planner. It appears that having a financial planner increases behavioral bias among consumers. The Pearson χ^2 test is statistically significant ($p = 0.000$). However, the tests for difference in gender, location, and retired versus not retired are not statistically significant.





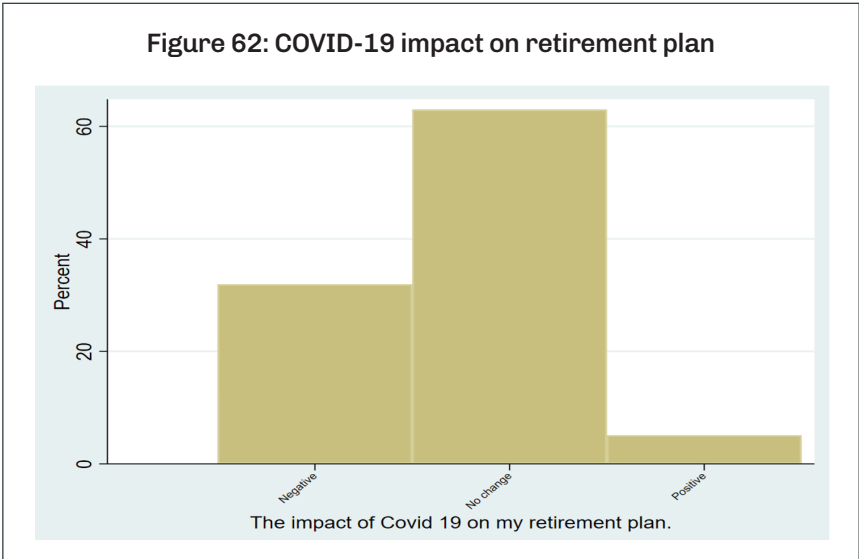
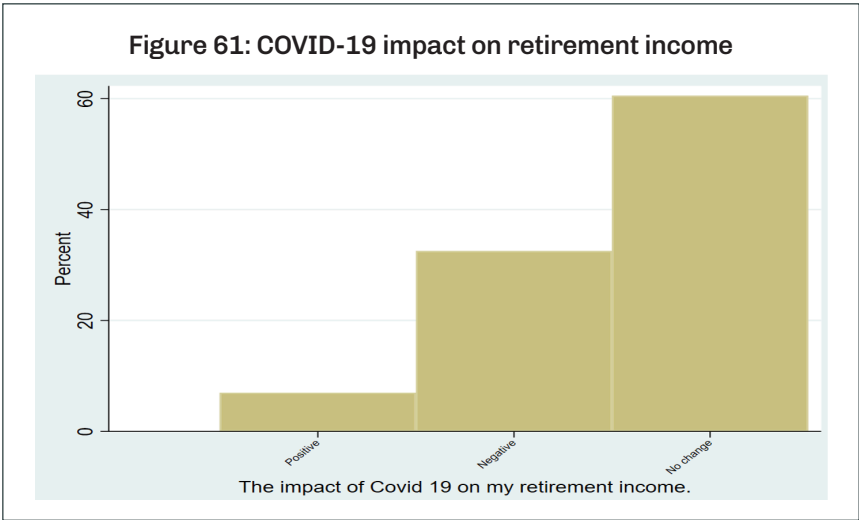
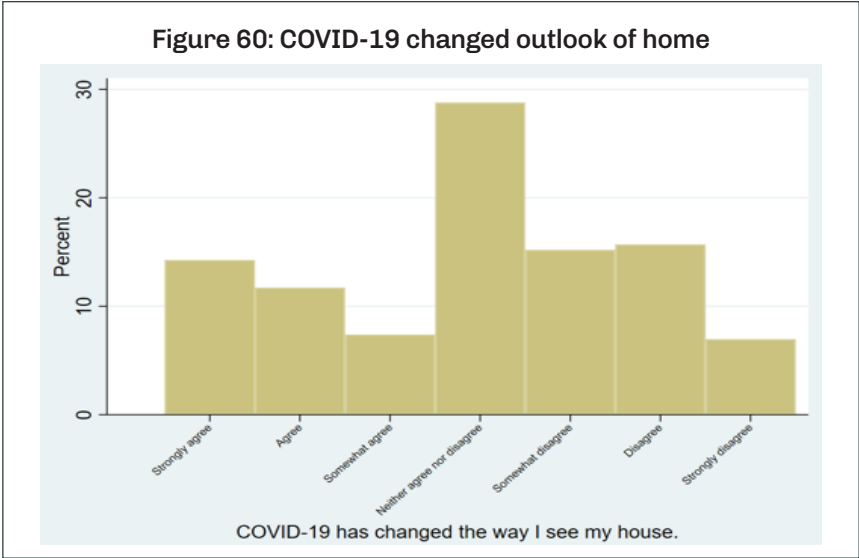
COVID-19 Impact

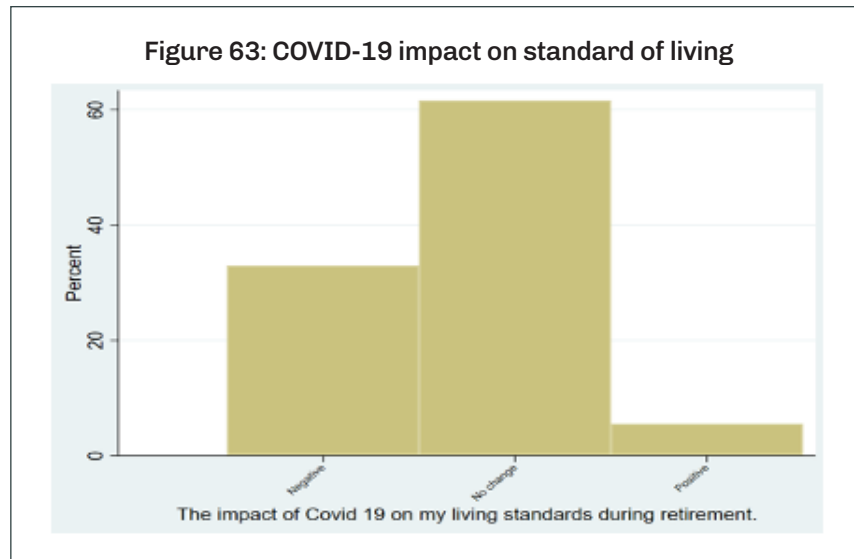
Finally, we asked a series of questions to ascertain the impact of COVID-19. Overall, COVID-19 does not seem to have a significant impact on the outlook on residential property, retirement income, retirement plan, or perceived/actual standard of living during retirement. In Figure 60, 33% of consumers strongly agree to somewhat agree that COVID-19 changed their outlook on residential property compared to 38% of consumers who strongly disagree to somewhat disagree. The Pearson χ^2 test is statistically significant for gender ($p = 0.000$). For example, 29% of male consumers strongly agree to somewhat agree (44% strongly disagree to somewhat disagree) that COVID-19 changed their outlook on their home compared to 36% (34% strongly disagree to somewhat disagree) of female consumers. Similarly, 35% of consumers in urban areas strongly agree to somewhat agree compared to 27% of consumers in rural areas (Pearson χ^2 p -value = 0.02). Also, 38% of urban consumers strongly disagree to somewhat disagree relative to 40% of rural consumers. Furthermore, COVID-19 impact on retired individuals' view of their home is statistically different from not-retired individuals. Forty-four percent of retired individuals somewhat disagree to strongly disagree that COVID-19 changed the way they view their house compared to 35% of not-retired individuals. Furthermore, the Pearson χ^2 for those with a financial planner versus those without one is not statistically significant.

In terms of retirement income, the majority of the sample selected no change due to COVID-19 (Figure 61). However, COVID-19's impact on consumers with a financial planner is slightly more negative (34%) compared to 31% for those without a financial planner. Similarly, the positive effect is slightly higher for those with a financial planner (8%) compared to 6% for those without a financial planner. The Pearson χ^2 is marginally significant. In terms of gender difference, the Pearson χ^2 is statistically significant ($p = 0.009$). For example, 9% of male consumers feel that COVID-19 has a positive (29% negative) impact on retirement income compared to only 5% positive (35% negative) impact on retirement income for female consumers. Similarly, the Pearson χ^2 test for difference between retired and not-retired individuals is statistically significant ($p = 0.000$). For example, 73% of retired individuals indicate that COVID-19 does not impact their retirement income (no change) compared to 55% of not-retired individuals. Also, 24% of retired individuals indicate a negative impact versus 37% of not-retired individuals. Finally, the Pearson χ^2 test for difference is not statistically significant for location (urban vs. rural consumers).

The majority of the sample (63%) selected no impact on retirement plan due to COVID-19 (Figure 62). However, the impact of COVID-19 on retirement plan is statistically significant for gender (Pearson χ^2 p -value = 0.027) but not for those with a financial planner (Pearson χ^2 p -value = 0.248) or location (Pearson χ^2 p -value = 0.266). For example, 6% of male consumers feel that COVID-19 has a positive (28% negative) impact on retirement plan compared to 5% positive (35% negative) impact on retirement plan for female consumers. Furthermore, 75% of retired individuals indicate that COVID-19 does not impact their retirement plan compared to 57% of not-retired individuals. Also, 22% of retired individuals indicate a negative impact compared to 37% of not-retired individuals (Pearson χ^2 p -value = 0.000).

Finally, in terms of standard of living during retirement, the majority selected no change (61%) relative to 33% who indicated a negative impact while 6% indicated a positive impact due to COVID-19 (Figure 63). Also, there is no statistical difference in gender or location. However, the Pearson χ^2 for difference for consumers who have a financial planner and those without one is statistically significant ($p = 0.002$). Eight percent of consumers with financial planners feels that COVID-19 has a positive (31% negative) impact on standard of living compared to 3% positive (35% negative) impact on standard of living for consumers without a financial planner. The remaining consumers report no impact from COVID-19. Similarly, 70% of retired individuals indicated that COVID-19 will not impact their standard of living during retirement compared to 56% of not-retired individuals. Furthermore, 28% of retired individuals feel that it will have a negative impact versus 36% of not-retired individuals. The Pearson χ^2 test for difference is statistically significant ($p = 0.000$).

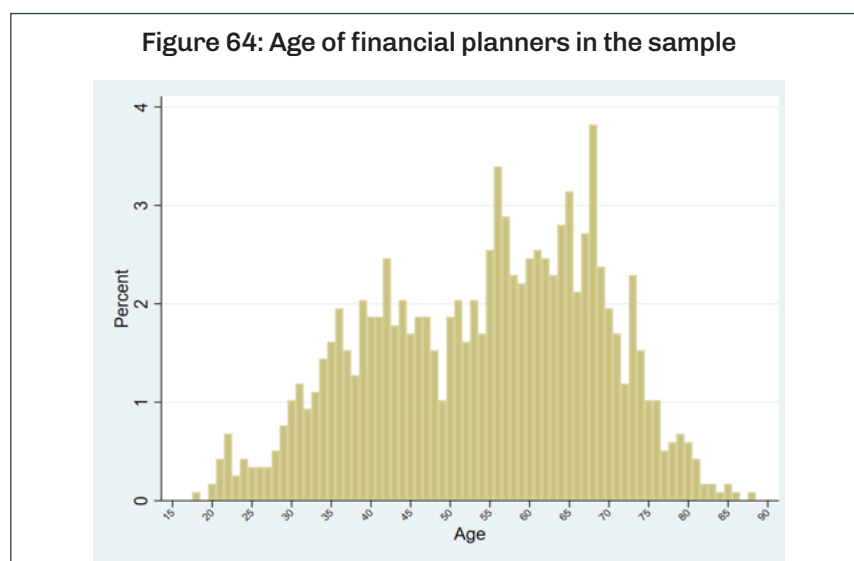


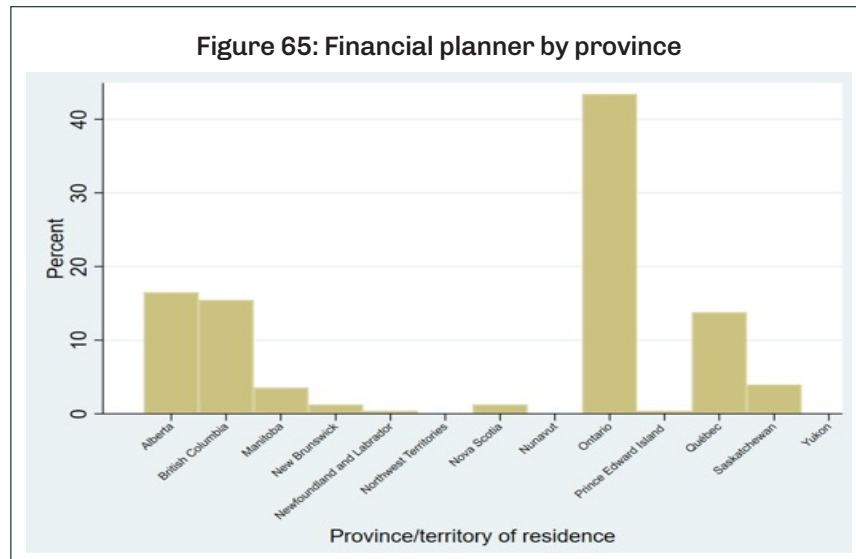


Financial Planner Results

Like the consumer survey, we utilize the Qualtrics platform to survey financial planners across Canada. FP Canada distributed the anonymous survey link to CFP® professionals and QAFP® professionals. The institut québécois de planification financière distributed the survey in French to pl. fins. in Quebec. We ended up with a sample of 479 completed surveys. Eighty-seven percent of the responses are from English-speaking financial planners and 13% from French-speaking financial planners. Eighty percent of the financial planners are from an urban/metropolitan setting while the remaining 20% are from a rural setting. The majority of financial planners in the sample are male (59.5%) compared to 39% female, and 1.5% of the sample chose not to disclose their gender. Furthermore, the majority of the sample are made up of married individuals (78%) compared to only 9% single, 12% divorced/separated, and 1% widowed.

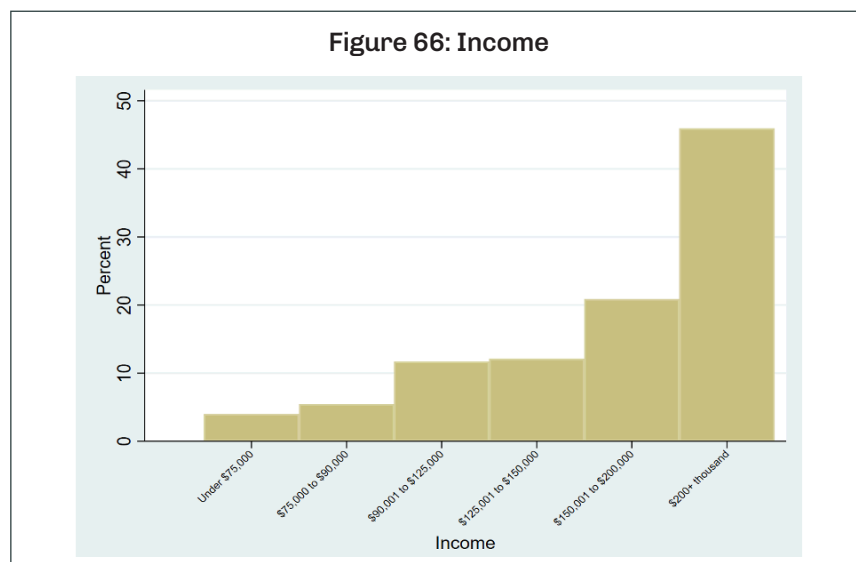
In Figure 64, we report the age distribution of the sample for financial planners. The average age for planners in the sample is 51.22 years with a minimum of 18 years and maximum of 86 years. The average age for English-speaking financial planners is 51.1 years and for French-speaking financial planners, 52.1 years. The average age for male financial planners is 52 years (median = 53 years) while the average age for female financial planners is 51 years (median = 52 years). In terms of location, the average age for both urban and rural financial planners is 51 years (median = 52 years).

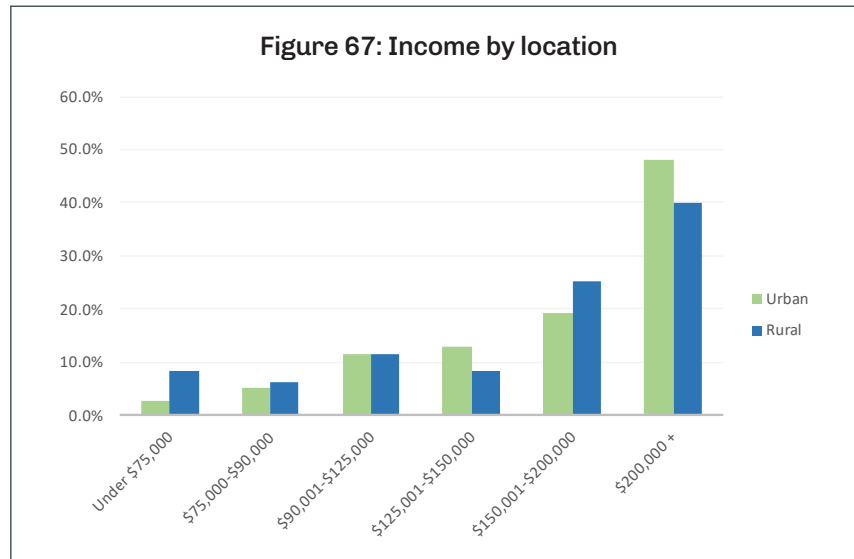




In Figure 65, the majority of financial planners in the sample are from Ontario (43%), followed by Alberta (16%), British Columbia (15%), and Quebec (14%).

In Figure 66, we report the income distribution for the sample. Forty-six percent of planners in the sample earn more than \$200,000, 21% earn between \$150,000 and \$200,000, 12% earn between \$125,000 and \$150,000, and 12% earn between \$90,000 and \$125,000. The remaining 9% earn less than \$90,000. The Pearson χ^2 is marginally statistically significant for location ($p = 0.088$) and not significant for gender or language. See Figure 67 for a complete breakdown of income by location.



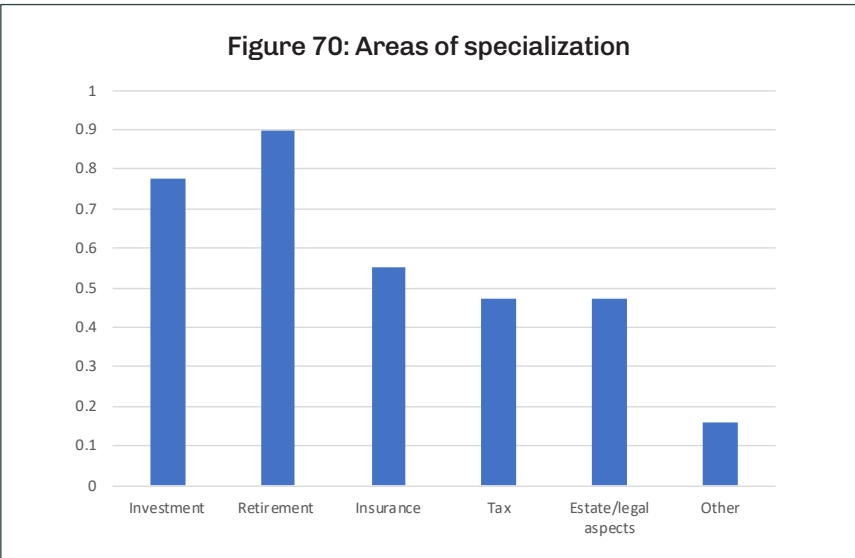
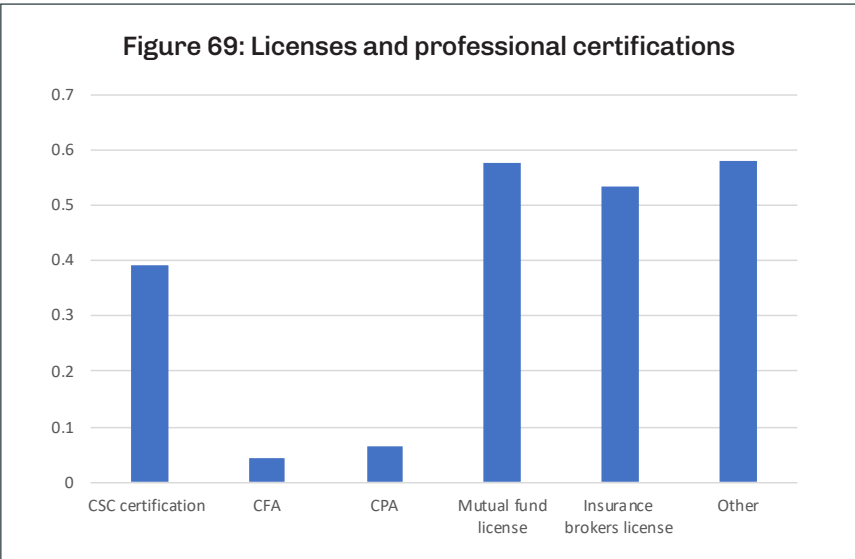
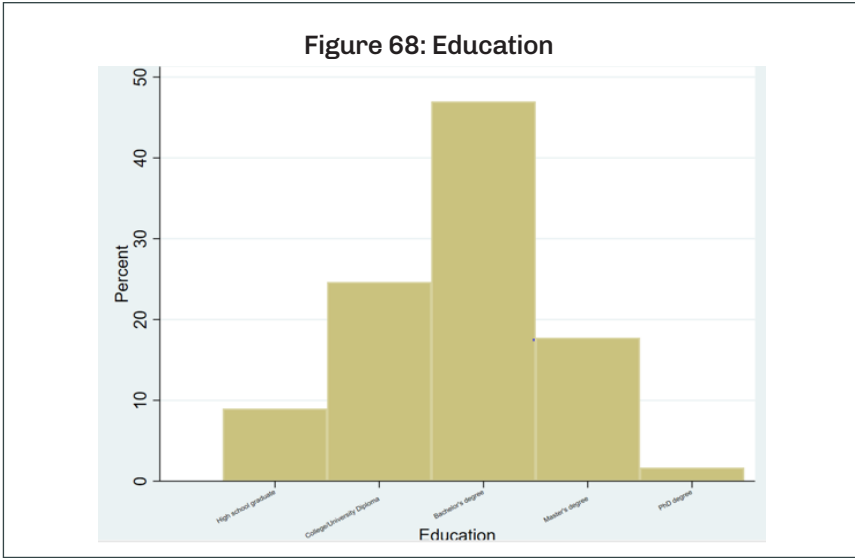


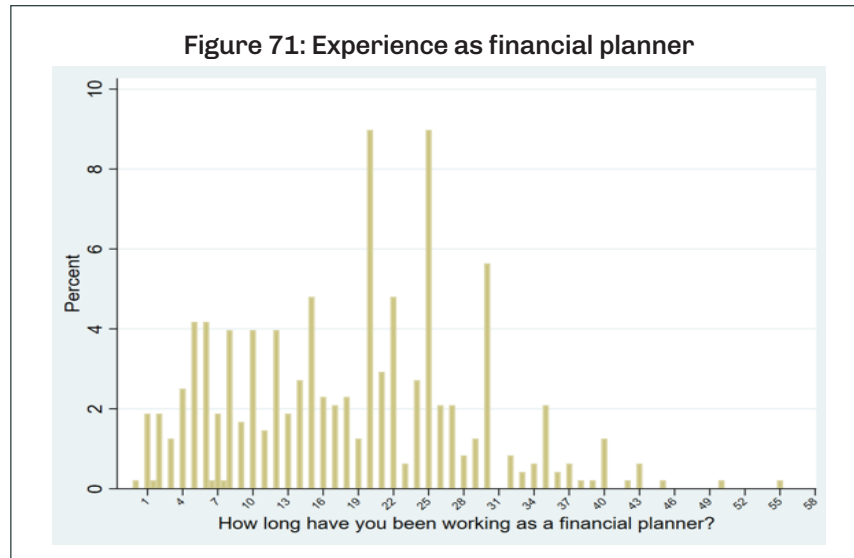
We report the sample breakdown by education in Figure 68. Forty-seven percent of planners have a bachelor's degree, 25% have a college/university diploma, 18% have a master's degree, and 9% have a high school diploma while 2% have no diploma or degree. The Pearson χ^2 test indicate that there is no difference in education by gender or language spoken. However, there is a statistically significant difference in education by location ($p = 0.013$). For urban financial planners, 9% have a high school diploma, 22% have a college/university diploma, 48% have a university degree, 20% have a master's degree, and 1% has a PhD. For rural financial planners, 10% have a high school diploma, 33% have a college/university diploma, 47% have a university degree, 7% have a master's degree, and 3% have a PhD.

In Figure 69, we report financial planners' licenses and professional certification other than Certified Financial Planner (CFP) certification and Qualified Associate Financial Planner (QAFP) certification. Fifty-seven percent of financial planners have a mutual fund license, 53% have insurance brokers license, 39% have completed the Canadian Securities Course (CSC), and 58% have some other license or designation such as Chartered Investment Manager (CIM), Chartered Life Underwriter (CLU), Certified Health Insurance Specialist (CHS), and Registered Retirement Consultant (RRC). Only 4% of financial planners have the Chartered Financial Analyst (CFA) and 7% have the Chartered Professional Accountant (CPA) certification.¹¹

In Figure 70, we report financial planners' areas of specialization. Financial planners were allowed to pick more than one choice. Retirement planning is the largest area of specialization (90%), followed by investment services (78%), insurance (55%), and taxes and estate planning/legal (47%). Other is 16% and includes financial planning, cash flow planning, and lending.

¹¹ Financial planners can have more than one license or certification. Hence the percentage will add up to more than 100%.

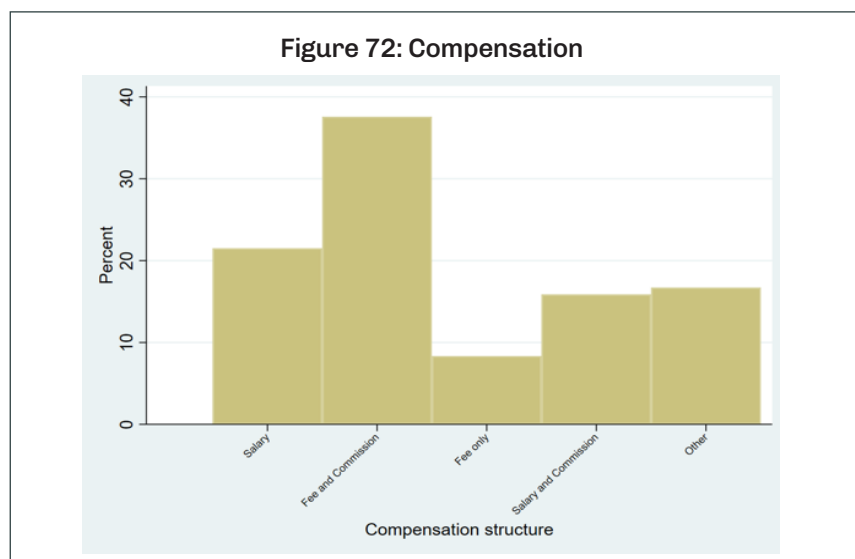


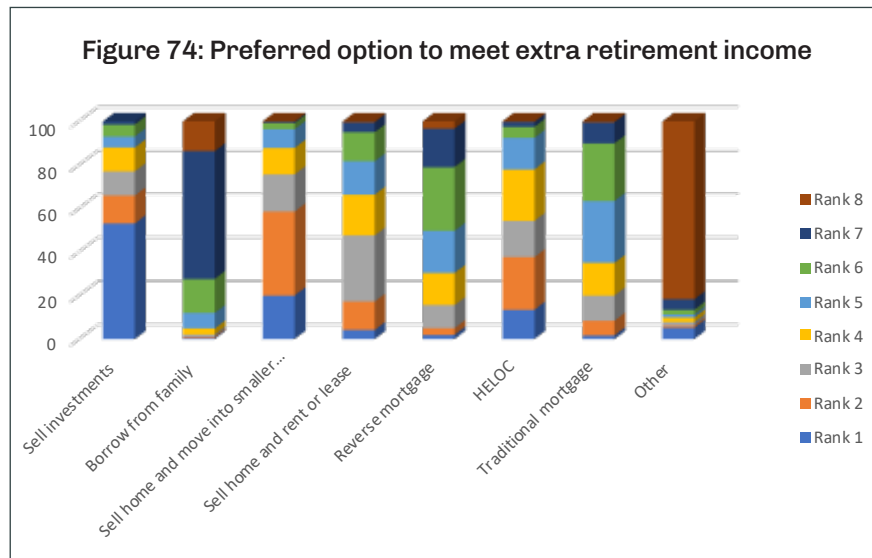
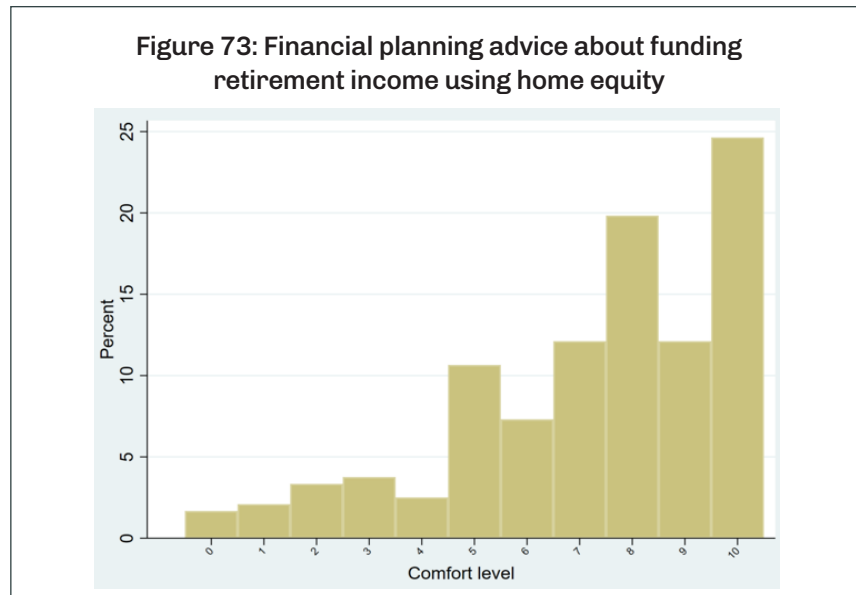


Next, we report the distribution of experience as a financial planner in Figure 71. The average number of years worked as a financial planner is 18 with a minimum of 1 year and a max of 55 years. The average experience for English-speaking planners is 17.8 years compared to 19.3 years for French-speaking planners. Similarly, the average number of years of experience by gender is similar for both males and females (18.5 years vs. 17.02 years). We observe similar results when we divide the sample by urban versus rural location (mean experience urban = 18.1 years vs. mean experience rural = 17.6 years). The Pearson χ^2 test for differences is not statistically significant for gender, location, and language.

We report the type of compensation in Figure 72. Twenty-two percent of the sample are compensated by salary only while 38% are by fees and commission, 8% are by fees only, 16% are by salary and commission, and 16% are by other means. Salary and bonus and/or commission are the most cited other type of compensation.

Next, we asked financial planners to indicate their comfort level with providing financial planning advice about funding retirement income using home equity and report the findings in Figure 73 (0 = least comfortable and 10 = most comfortable). The majority of the sample (69% rated 7–10) appear very comfortable in providing advice on utilizing home equity to fund clients' retirement income. In comparison, only 11% are not comfortable with providing such advice. The Pearson χ^2 test for differences is not significant when we divide the sample by gender, location (urban vs. rural), and language (English vs. French).





In Figure 74, we report financial planners' ranking of various options to meet clients' need for extra income during retirement. Financial planners selected "sell investments" (53%) as the number one option to provide extra income during retirement. This is followed by sell home and move into a smaller home (20%), HELOC (13%), and other option (5%). Surprisingly, reverse mortgage is ranked sixth out of eight choices. It is important to note that selling investments has greater tax implications (capital gains) compared to a reverse mortgage. However, a reverse mortgage does have various costs such as interest costs, home appraisal fee, legal fees, and prepayment penalty compared to selling investments. Similarly, options like HELOC, sell and rent, sell and downsize, and traditional mortgage have several costs and potential risks relative to selling investments such as stocks and bonds. The costs of the various options versus the benefits can potentially explain why selling investments is ranked highly by financial planners. Furthermore, the rankings are aligned with the results from the consumer survey where selling and downsizing and HELOC rank high compared to reverse mortgage and sell and rent (Figure 37), even though consumers are more familiar with reverse mortgage and HELOC compared to sell and downsize and rent a portion of their home to fund retirement income (Figure 36).

HERS

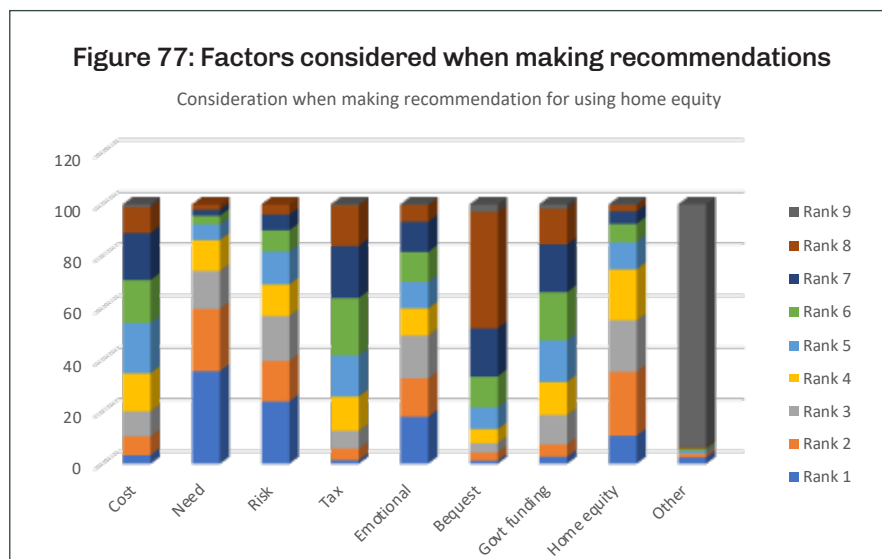
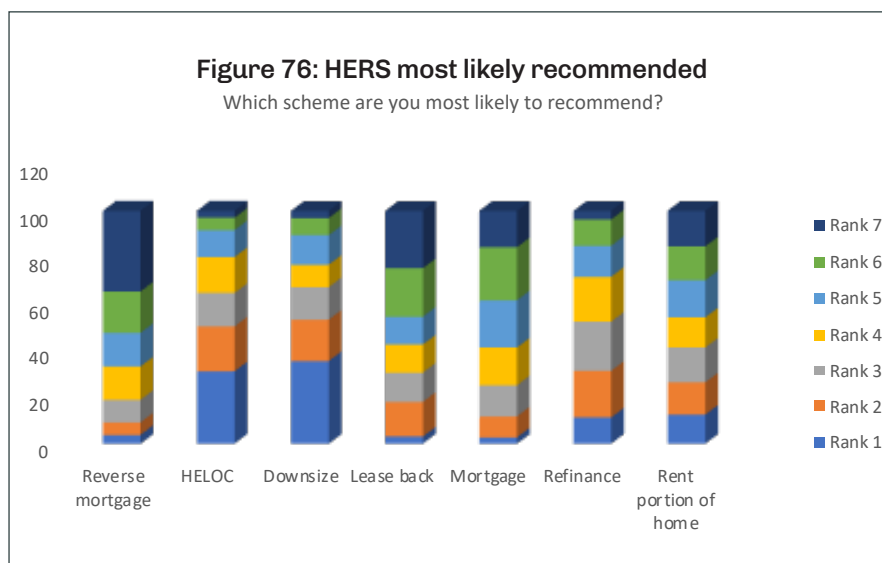
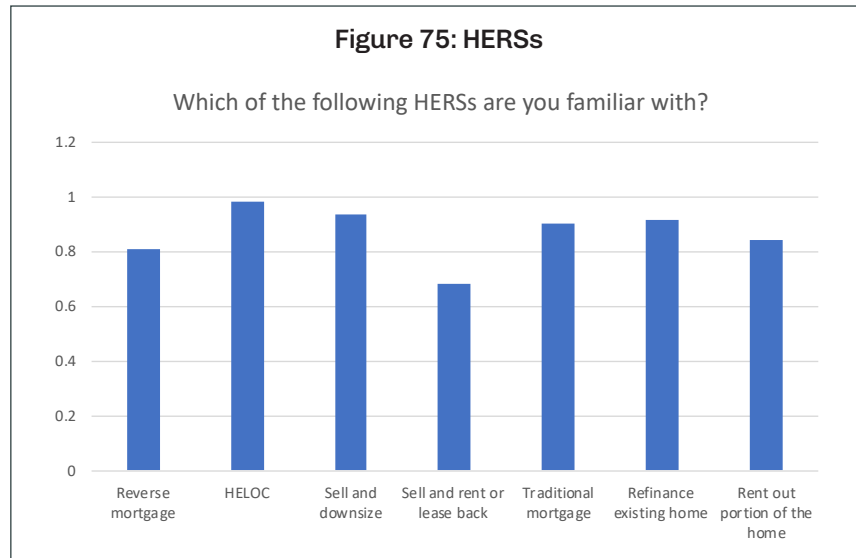
One of the primary goals of this project is to ascertain financial planners' knowledge about various home equity release options, whether they are likely to recommend these options to clients to fund retirement income, and what are some factors considered when assessing whether these options are suitable for clients. First, we start with a more general assessment of home equity release options. Second, we asked financial planners a series of questions related to each type of home equity release options to assess their perception of the costs, benefits, and risks associated with each option. Third, we assess financial planners' knowledge via a series of literacy questions. Finally, we examine behavioral biases and relate them to financial planners' perception about the various HERSs.

In Figure 75, we report financial planners' assessments of their familiarity with seven different options to utilize home equity to fund retirement income. Over 80% of financial planners surveyed are familiar with the options presented except for sell and rent or lease back where 68% of financial planners are familiar with this option. The option they are most familiar with is HELOC (98%) followed by sell and downsize (94%) and refinancing existing home (92%).

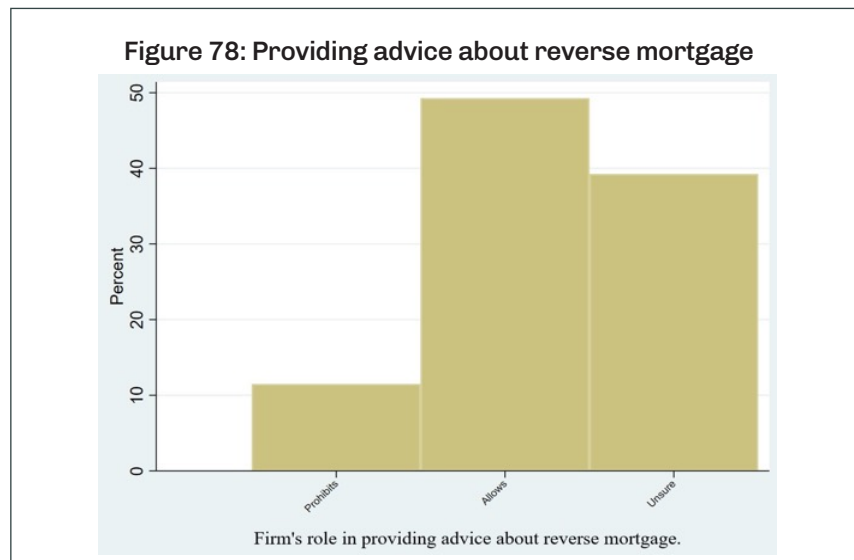
Next, given that they are familiar with these products, we asked financial planners to rank the home equity release options they are likely to recommend to clients, and the findings are reported in Figure 76. In terms of the number one-ranked option, 35% of financial planners selected sell and downsize, 31% for HELOC, 13% for rent a portion of the home, and 11% for refinancing the existing home mortgage. It is important to note that a large percentage of consumers selected sell and downsize and HELOC as their number one-ranked choice for utilizing home equity to fund retirement income (Figure 37). Only 4% of financial planners ranked reverse mortgage as their number one choice. As for the second rank option, 20% selected refinancing existing mortgage, 19% for HELOC, and 18% for sell and downsize. Again, 5% selected reverse mortgage as their second choice.

Finally, we wanted to examine the factors that are likely to influence financial planners when making recommendations to clients about various home equity release options. We report the findings in Figure 77. In terms of the number one-ranked factor, 36% of financial planners selected the amount needed by the client, 24% selected risk to retirees, and 18% selected retirees' emotional attachment to their home. As for the second rank factor, 25% selected the amount of equity built up in the home, 24% selected the amount needed, 16% selected risk to retiree, and 15% selected retiree's emotional attachment to their home. Surprisingly, 45% of financial planners selected bequest motive as the eighth-ranked factor. Other factors such as taxes, implications for government-funded retirement income sources such as GIS and OAS, and costs ranked at the bottom half of the ranking scale.

In summary, financial planners are very familiar with the various options available to leverage home equity to fund retirement income. Sell and downsize and HELOC are the most popular options to leverage home equity selected by both financial planners and consumers. Finally, consistent with the theoretical and empirical literature (outside of Canada), factors such as risk and emotional attachment are important when selecting home equity release options. Surprisingly, bequest motives and costs are ranked at the bottom of the scale in terms of importance.

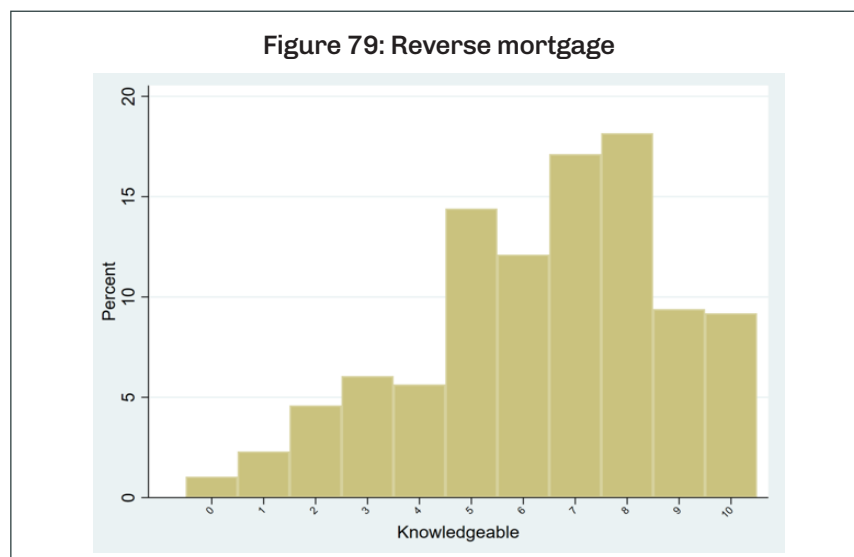


Reverse Mortgage

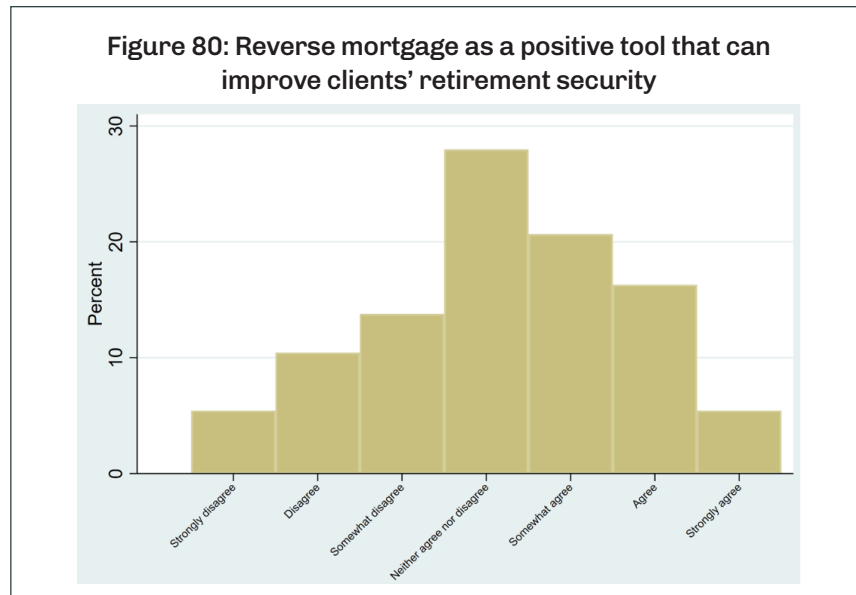


Next, we asked planners to indicate whether their firms allow them to provide advice about reverse mortgages. Figure 78 reports that the majority of planners in the sample (49%) are allowed to provide advice about reverse mortgages by their firm. Only 11% of financial planners' firms prohibit them from providing advice about reverse mortgage. Surprisingly, 40% of planners in the sample are unsure whether their firms allow them to provide advice about reverse mortgages. Dividing the sample by gender, location (urban vs. rural), and language (English vs. French) produces similar results to the full sample.

Figure 79 reports planners' response to the following question: "How knowledgeable do you believe you are with regard to reverse mortgages?"¹² Planners were asked to rank their knowledge from 0 to 10 with 10 being extremely knowledgeable. About 54% of planners rank their knowledge as very high to extremely high (rank 7–10). Only 14% indicate that they are not knowledgeable (rank 0–3) about reverse mortgages. Sixty percent of males rated their knowledge as very high to extremely high compared to 45% of females. Similarly, 11% of male planners rate their knowledge of reverse mortgages as low compared to 19% of female planners. The Pearson χ^2 tests for difference is statistically significant at the 5% level ($p = 0.022$). However, the results do not appear to be different when we separate the sample by urban versus rural areas and English-speaking versus French-speaking financial planners.

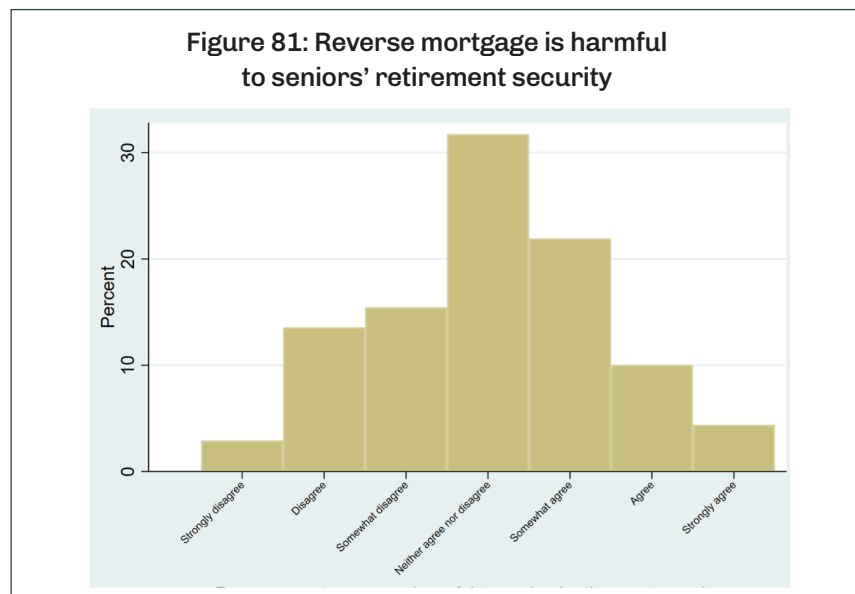


¹² 0=least knowledge and 10=most knowledgeable.



Next, we asked planners whether they view a reverse mortgage as a positive tool to improve clients' retirement security and income. In Figure 80, 30% of planners strongly disagree to somewhat disagree that reverse mortgage is a positive tool to improve retirement income compared to 42% of those who strongly agree to somewhat agree that reverse mortgage is a positive tool while 28% are neutral. The results are the same when we divide the sample by gender, location, and language.

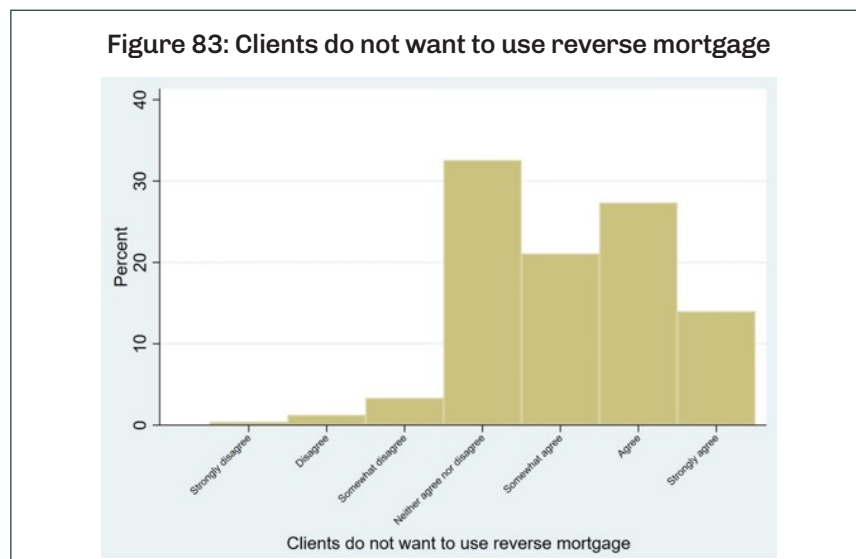
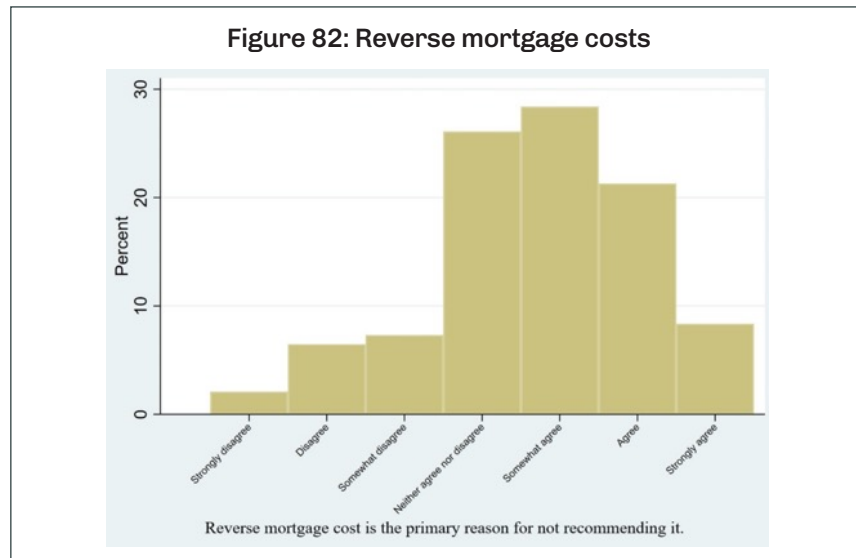
In Figure 81, we report whether planners view a reverse mortgage as harmful to seniors' retirement security and income. About 32% of planners strongly disagree to somewhat disagree that a reverse mortgage is harmful compared to 36% of planners who feel that a reverse mortgage is not harmful while 32% of planners are neutral. The Pearson χ^2 test for difference is not statistically significant for gender, location, and language.

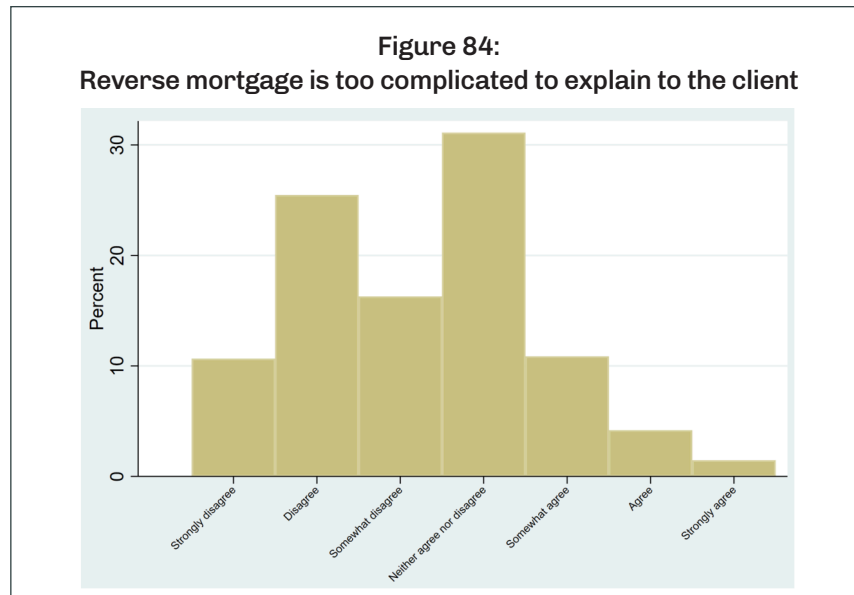


Next, we examine whether the costs of reverse mortgages are the primary factor for not recommending reverse mortgages to fund retirement income. Only 16% feel that costs are not a factor (strongly disagree to somewhat disagree) compared to 58% of planners who feel that costs are a factor (strongly agree to somewhat agree) while 26% of planners are neutral (Figure 82). There are no statistical differences for gender and location, but the Pearson χ^2 is statistically significant for language ($p = 0.001$). Seventy-eight percent of French-

speaking planners strongly agree to somewhat agree that costs are the primary factor for not recommending reverse mortgage compared to only 56% of English-speaking planners.

Next, we asked planners to indicate whether their clients want to use a reverse mortgage to provide retirement income. Only 5% of planners indicate that their clients are willing to use reverse mortgage compared to 62% of planners who strongly agree to somewhat agree with the statement that clients do not want to use a reverse mortgage (Figure 83). This result appears to be consistent with the consumer survey results reported in Figure 50 where the majority of consumers are unlikely to take out a reverse mortgage. In terms of differences, the results do not differ by gender and location. However, the Pearson χ^2 is statistically significant for language ($p = 0.006$)—that is, 61% of English-speaking financial planners strongly agree to somewhat agree that their clients do not want to use reverse mortgage compared to 70% of French-speaking financial planners.

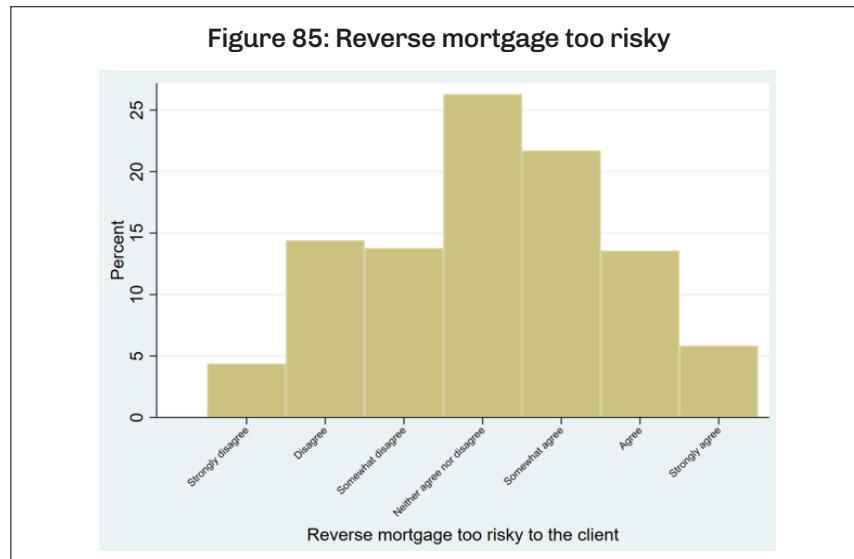




Reverse mortgage can be viewed as a complex product; hence, we asked planners to indicate their agreement with the following statement: “I do not recommend reverse mortgage because it is too complicated to explain to the client.” In Figure 84, the majority of planners in the sample strongly disagree to somewhat disagree (52%) that a reverse mortgage is complicated to explain to the client. Only 16% strongly agree to somewhat agree with the statement. This is not consistent with the result from the consumer survey reported in Figure 51 where 50% of consumers surveyed view a reverse mortgage as a complex product. The Pearson χ^2 test for difference is not statistically significant for gender, language, and location.

In addition to complexity, the perceived riskiness of reverse mortgage could influence whether financial planners recommend reverse mortgage to clients. The results are reported in Figure 85. Thirty-three percent of planners strongly disagree to somewhat disagree that a reverse mortgage is too risky. On the other hand, 41% strongly agree to somewhat agree that a reverse mortgage is too risky to fund retirement income. The Pearson χ^2 test for difference is not statistically significant for gender and language but is significant for location. Forty-three percent of urban financial planners strongly agree to somewhat agree that riskiness influences their recommendation of reverse mortgage as an option to fund retirement compared to 35% of rural planners.

Finally, we estimate a probit model of the probability of recommending a reverse mortgage as an option to fund retirement income. The results, not tabulated, are as follows. For every year of additional experience as a financial planner, the probability of recommending a reverse mortgage increases by 5.5%. Similarly, if financial planners view a reverse mortgage as a positive tool for improving retirement security and income, then the probability of recommending reverse mortgage increases by 48.4%. In the model, we include several other variables such as age, gender, marital status, education, location, types of compensation, financial literacy score for reverse mortgage questions, and provincial indicator variables. None of these other variables are statistically significant. It is important to note that only 4% of financial planners selected reverse mortgage as their first-choice option to provide extra retirement income.

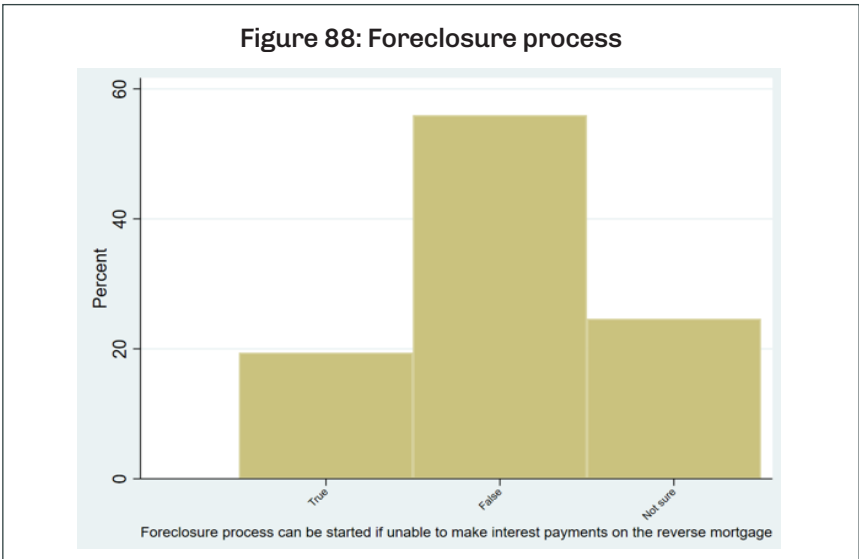
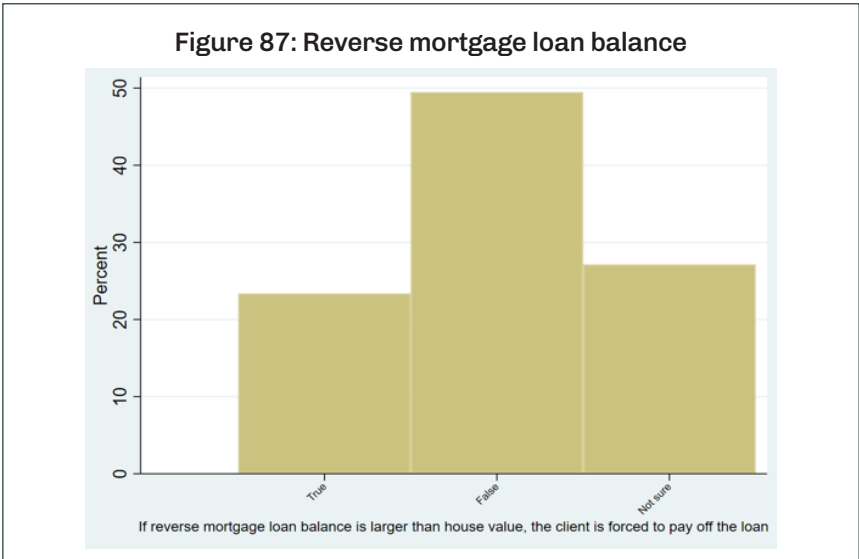
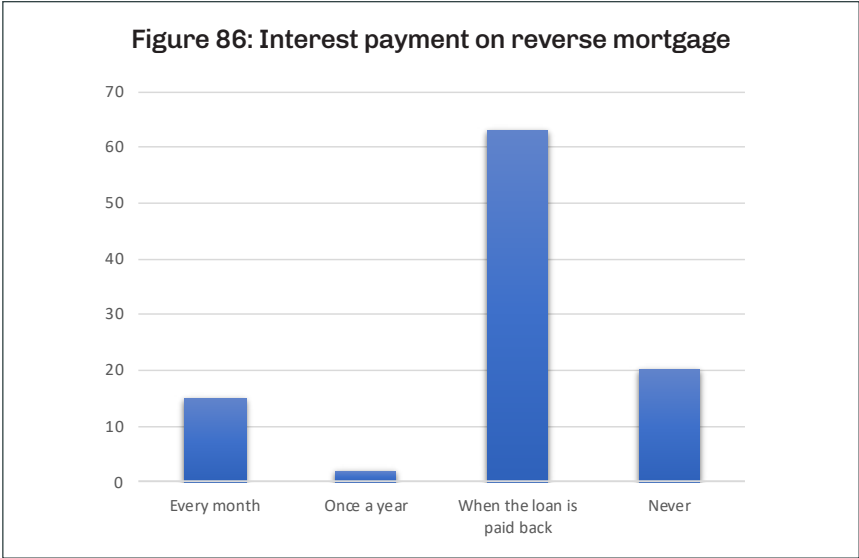


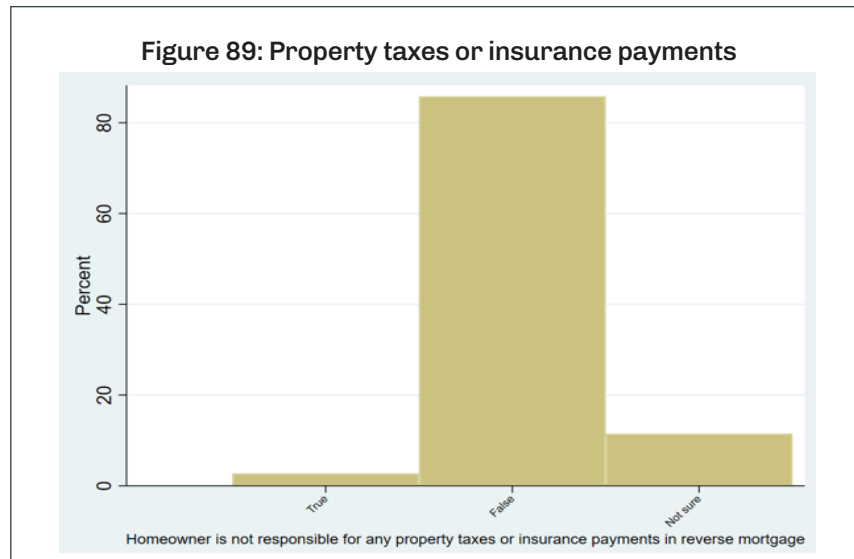
Financial Literacy—Reverse Mortgage

We asked a series of financial literacy questions relating to the various home equity release options. First, we asked nine questions about reverse mortgages to test financial planners’ knowledge of this option. The first question is, “When do you have to make interest payments on a reverse mortgage?” We report the findings in Figure 86. Planners were presented with four possible answers and had to select the correct answer. In Figure 86, 63% of financial planners surveyed answer correctly. More financial planners in urban areas answer correctly (64%) compared to rural planners (57%). There is no difference when the sample is divided by gender and location. However, the Pearson χ^2 is statistically significant at the 1% level for language—that is, 65% of English-speaking financial planners answer correctly compared to 48% for French-speaking planners.

Next, we asked the following true/false question: “If the reverse mortgage loan balance is larger than the house value, the lender can force you to pay the loan off with other assets.” The results are reported in Figure 87. Only 49% of financial planners answer this question correctly while 23% answer incorrectly and the remaining 28% are not sure. Again, more urban-located financial planners answer correctly (50%) compared to rural planners (46%). Similarly, more male planners answer correctly (51%) compared to female planners (47%). More female planners select not sure (32%) compared to male planners with 24% being unsure of the correct answer. However, the test for difference is not statistically significant for either gender or location. As for language spoken, the Pearson χ^2 is statistically significant at the 1% level ($p = 0.002$)—that is, 51% of English-speaking financial planners answer the question correctly compared to 37% of French-speaking planners.

The third question is related to foreclosure (“If you are unable to make your interest payments on the reverse mortgage loan, a foreclosure process can be started on your home”). In Figure 88, 56% of financial planners surveyed answer correctly while 19% select the wrong answer and 25% are not sure of the answer. More male planners answer correctly (60%) compared to 50% of female planners. Again, more female planners are “not sure” (29%) compared to 22% for male planners. However, the Pearson χ^2 for difference is not statistically significant for gender and location. In terms of language spoken, 58% of English-speaking financial planners answer correctly compared to 37% of French-speaking planners. The Pearson χ^2 test is statistically significant at the 1% level ($p = 0.000$).





We constructed a question about tax and insurance payments (“A reverse mortgage is different from a traditional mortgage in that the homeowner is not responsible for any property taxes or insurance payments”). In Figure 89, the majority of participants answer correctly (86%) compared to only 3% who answer incorrectly. There is no difference when we divided the sample by gender, location, and language.

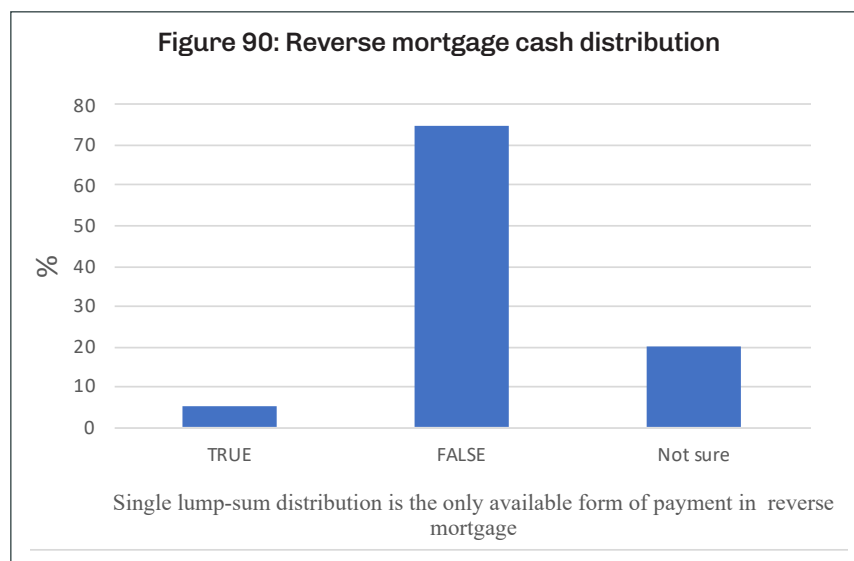
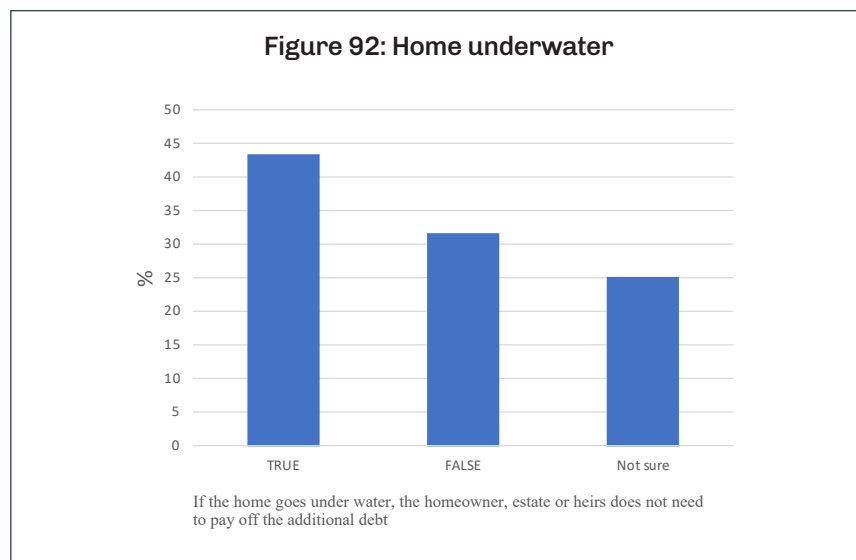
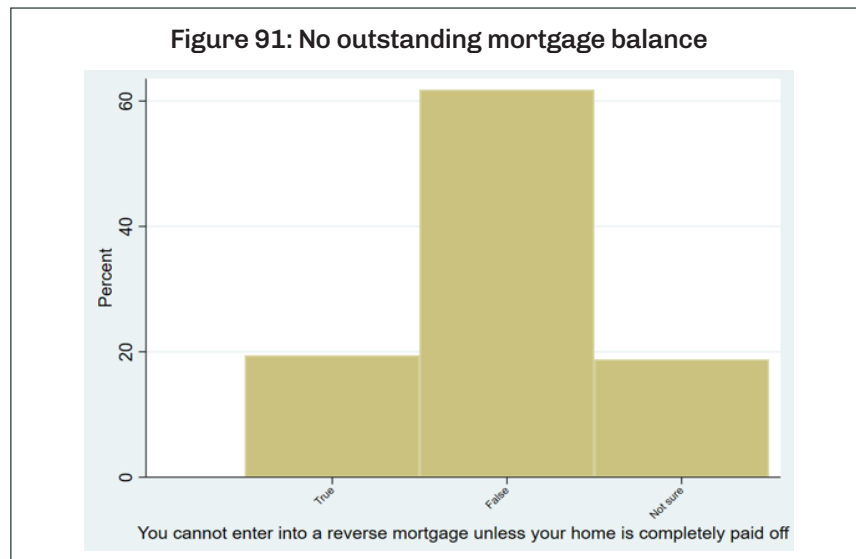
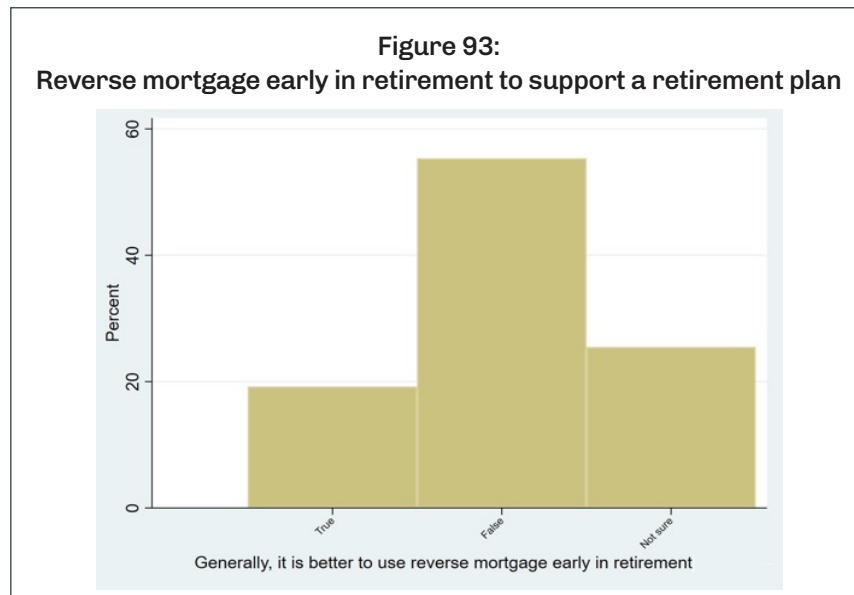


Figure 90 reports findings for a question about cash distribution (“The only currently available form of payment from a reverse mortgage is a single lump-sum distribution”). Like the previous question, the majority of financial planners answer correctly (75%) while only 5% answer incorrectly and 20% are not sure. There is no difference when we divide the sample by gender, location, and language.

The next question we asked financial planners is related to outstanding mortgage balance (“You cannot enter into a reverse mortgage unless your home is completely paid off and there is no outstanding mortgage balance”). The results are reported in Figure 91. The majority of financial planners answer correctly (62%) while 19% answer incorrectly and 19% are not sure. Sixty-six percent of male financial planners select the correct answer relative to 55% for female financial planners. The Pearson χ^2 test for difference is statistically significant at the 10% level ($p = 0.057$). However, there is no difference between urban- versus rural-located financial planners or English- versus French-speaking planners.

Next, we asked the question “One benefit of a reverse mortgage is that if the home goes underwater (the home is worth less than the amount owed to the lender), the homeowner, estate, or heirs do not need to pay off the additional debt” and report the findings in Figure 92. Forty-three percent of financial planners answer correctly compared to 32% who answer incorrectly. Forty-seven percent of male financial planners answer correctly compared to 37% of female financial planners. The Pearson χ^2 test for difference is statistically significant at the 5% level ($p = 0.05$). However, there is no difference between urban- versus rural-located financial planners. Furthermore, 45% of English-speaking financial planners answer correctly compared to 33% of French-speaking planners (Pearson χ^2 p -value = 0.056).



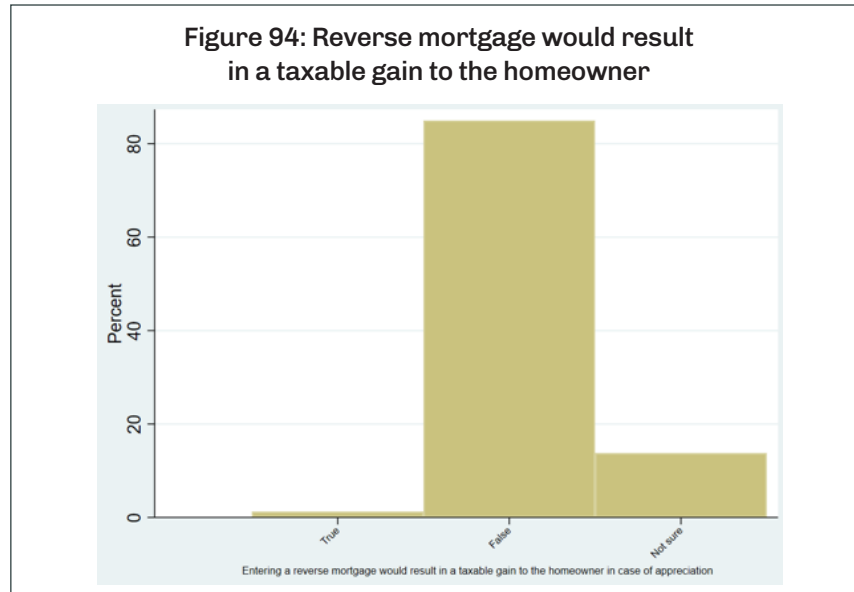


Based on the theoretical literature, we asked financial planners the following question: “Generally, using reverse mortgage early in retirement to support a retirement plan is better than as a last resort toward the end of retirement.”¹³ The correct answer is true. In Figure 93, only 19% of financial planners select the correct answer while 55% answer incorrectly. More male financial planners answer correctly (24%) compared to female planners (13%). The Pearson χ^2 test for difference is statistically significant ($p = 0.003$). However, the test for difference for location and language is not statistically significant.

The final financial literacy question about reverse mortgages is, “If the value of your home has grown in value since you bought it, entering a reverse mortgage would result in a taxable gain to the homeowner.” The results are reported in Figure 94. A large majority of financial planners surveyed answer correctly (85%). A great percentage of male financial planners answer correctly (89%) compared to 80% of female financial planners. The Pearson χ^2 test for difference is statistically at the 1% level ($p = 0.013$). However, there is no difference between urban and rural financial planners or English-speaking versus French-speaking planners.

In summary, financial planners appear to be knowledgeable about reverse mortgage. For eight of the nine financial literacy questions, the majority of financial planners surveyed are able to select the correct answer. The evidence from these financial literacy questions supports financial planners’ assessment of their knowledge about reverse mortgage reported in Figure 79.

¹³ Sacks and Sacks (2012) used Monte Carlo simulations to quantify how retirement spending strategies experience higher probabilities of success when using a reverse mortgage early in retirement as opposed to a last resort. They show that coordinating a reverse mortgage with investment portfolio withdrawals help improve the success rate of the portfolio and improve the possibility for leaving a legacy. Salter et al. (2012) find that there are significant benefits in coordinating a reverse mortgage line of credit with a systematic portfolio withdrawal strategy to generate retirement income. Pfau (2015) finds that there is great value for clients to open a reverse mortgage line of credit at the earliest possible age.

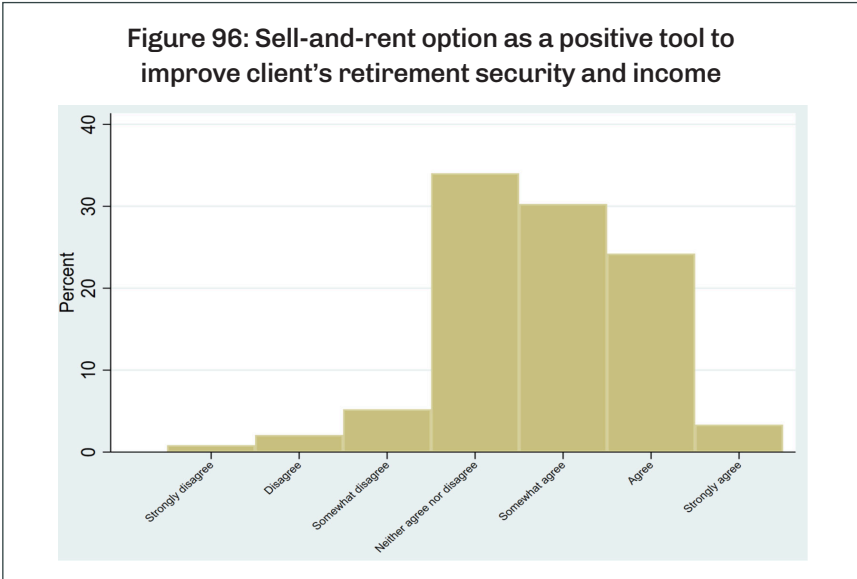
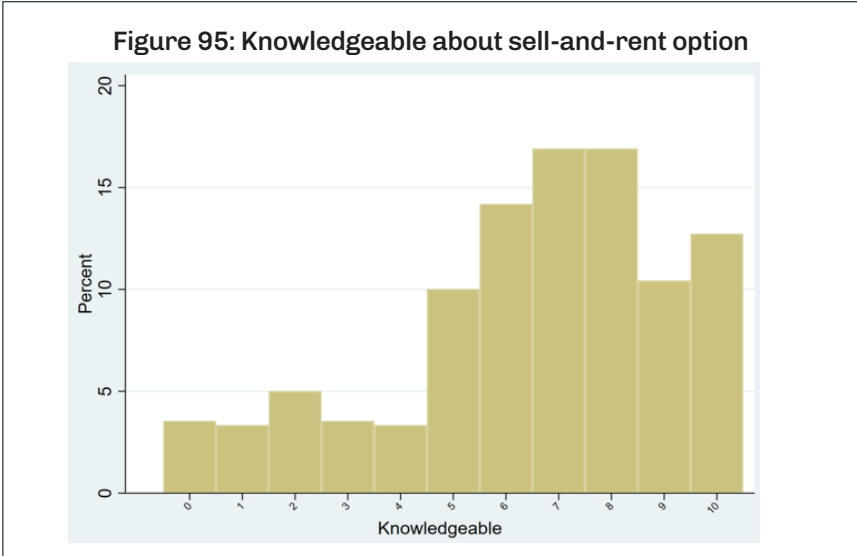


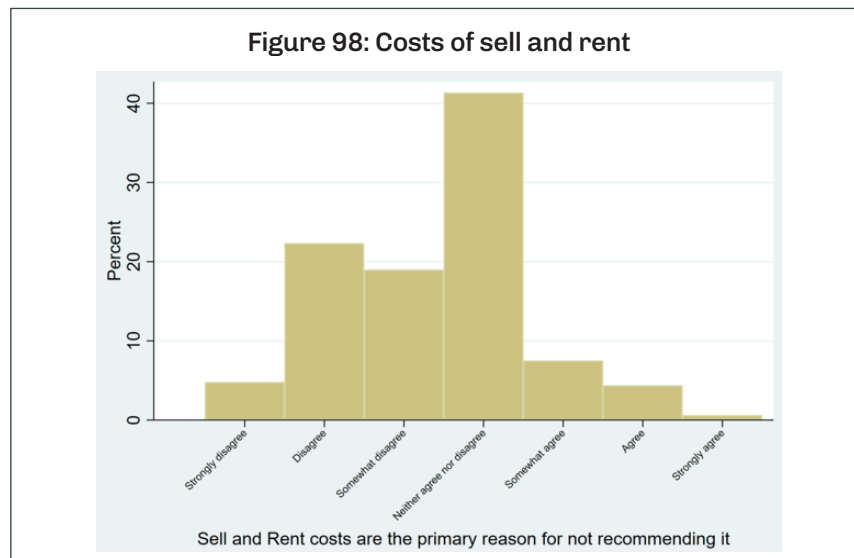
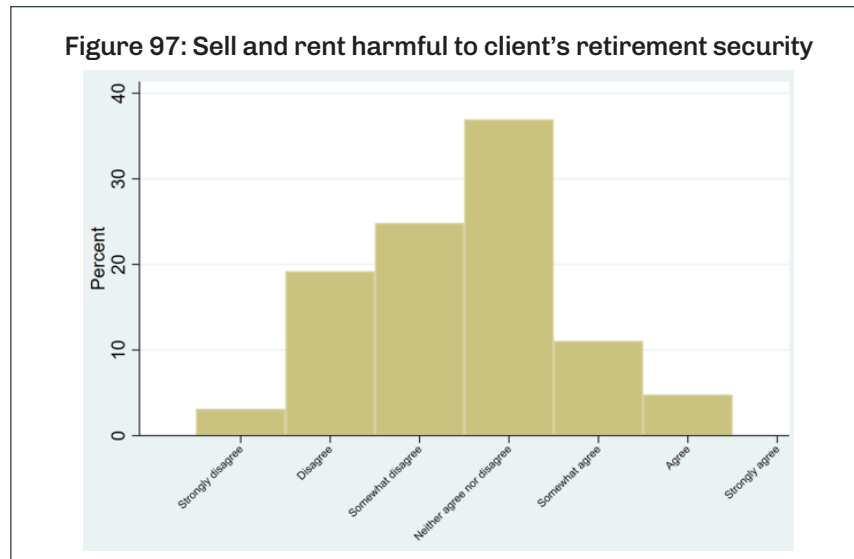
Sell-and-Rent Option

The second option that allows Canadians to leverage their home equity to fund retirement income is the sell-and-rent option. Financial planners were asked to rate their knowledge about this option as an alternative to supplement retirement income. The results are reported in Figure 95 with 10 indicating extremely knowledgeable and 0 indicating not at all knowledgeable. Fifty-seven percent of planners rate their knowledge regarding the sell-and-rent option as high (rating 7–10) while only 15% rate their knowledge as low (rating 0–3). The results are similar when we divide the sample by gender and location. However, 54% of English-speaking financial planners rate their knowledge as high to extremely high compared to 78% of French-speaking financial planners. The Pearson χ^2 test for difference is statistically significant at the 5% level ($p = 0.026$).

As expected, very few participants (8%) disagree that the rent-and-sell option is a positive tool to improve clients' retirement security and income as reported in Figure 96 while 58% strongly agree to somewhat agree that the sell-and-rent option is a positive tool to fund retirement income and 34% are neutral. Again, gender and location do not impact the results. However, the Pearson χ^2 test for difference is statistically significant at the 1% level—that is, 54% of English-speaking financial planners strongly agree to somewhat agree that this option is a positive tool compared to 78% of French-speaking financial planners.

Next, we asked financial planners whether the sell-and-rent option is viewed as harmful to clients' retirement security and income. In the results reported in Figure 97, 47% of financial planners strongly disagree to somewhat disagree that the sell-and-rent option is harmful compared to only 16% who strongly agree to somewhat agree that it is harmful and 37% of the respondents are neutral. The Pearson χ^2 test for difference by gender and location is not statistically significant while the Pearson χ^2 test for difference based on language is marginally significant.



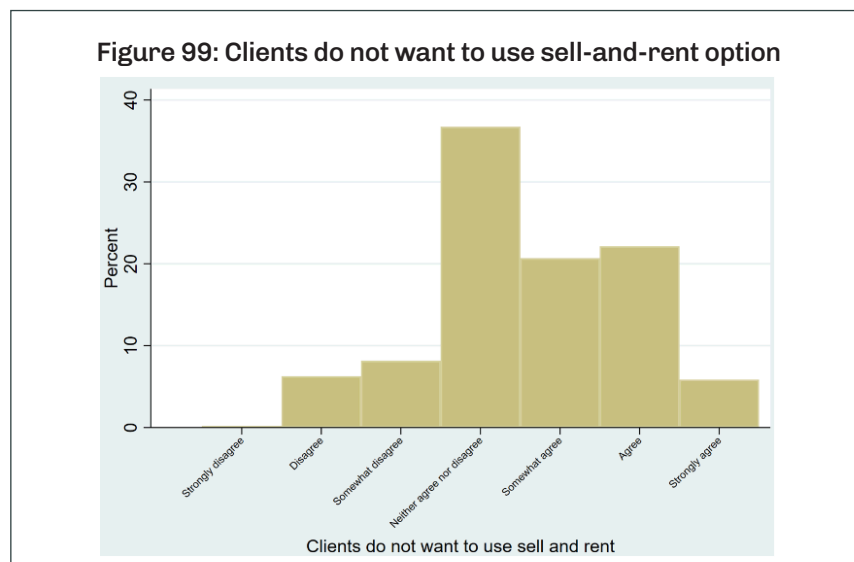


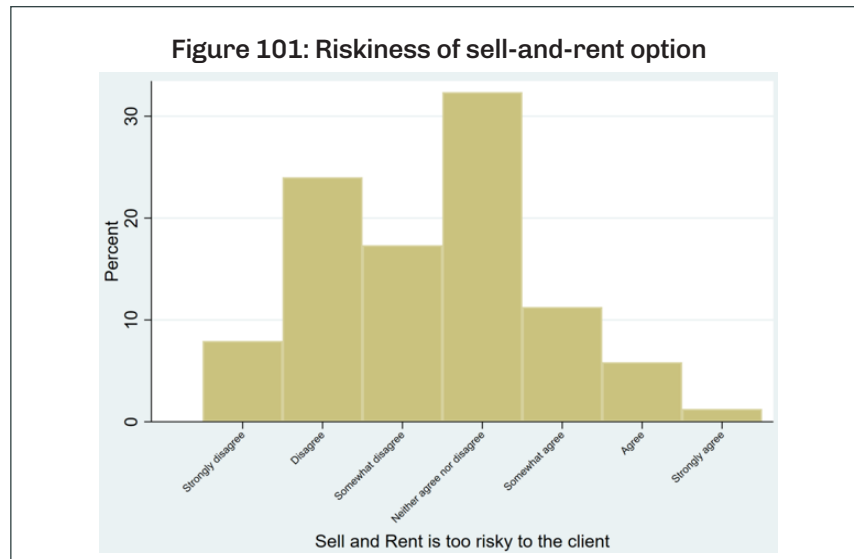
Next, we examine the impact of costs associated with the sell-and-rent option. The results are reported in Figure 98. Forty-six percent of financial planners strongly disagree to somewhat disagree that the costs associated with the sell-and-rent option is the primary reason for not recommending it to fund retirement income. Only 12% strongly agree to somewhat agree that costs is the primary reason. A large number of financial planners are neutral (42%) on costs. The results remain relatively the same when we divide the sample by gender and location. However, the Pearson χ^2 test for difference by language spoken is statistically significant at the 1% level ($p = 0.000$)—that is, 43% of English-speaking financial planners strongly disagree to somewhat disagree that costs is a primary reason for not recommending this option to fund retirement compared to 67% of French-speaking financial planners.

In addition to financial planners' view on costs, harm, and positive impact of the sell-and-rent option, it is possible that clients are unwilling to utilize this option. Therefore, we asked financial planners to rate their agreement with the following statement: "In general, my clients do not want to use the sell-and-rent option to fund retirement income." The results in Figure 99 indicate that the majority of financial planners strongly agree to somewhat agree (49%) with the statement. It appears that clients are unwilling to use this option to fund retirement, and this is consistent with the consumer survey results. Only 15% strongly disagree to somewhat disagree with the statement. This is interesting given that only 8% of consumers (Figure 36) we surveyed

indicate that they are familiar with the sell-and-rent/lease option to fund retirement income. Similarly, of the potential consumers surveyed, only 7% indicate that the sell-and-rent or lease-back option is a HERS they are likely to use to fund retirement income (Figure 25). In terms of gender, there is no difference between male and female financial planners. However, the Pearson χ^2 for difference between urban and rural financial planners is marginally statistically significant ($p = 0.054$). As for language, 13% of English-speaking financial planners strongly disagree to somewhat disagree that their clients do not want to use the sell-and-rent option to fund retirement income compared to 27% of French-speaking financial planners. The Pearson χ^2 test for difference is statistically significant at the 1% level ($p = 0.000$).

Next, we asked financial planners whether the sell-and-rent option is too complicated to explain to clients as an alternative source of funds during retirement. In Figure 100, 62% of financial planners strongly disagree to somewhat disagree that this option is too complicated to explain to clients compared to 48% of financial planners who strongly agree to somewhat agree. The Pearson χ^2 for language is statistically significant at the 1% level ($p = 0.002$)—that is, 61% of English-speaking financial planners strongly disagree to somewhat disagree that the sell-and-rent option is too complicated to explain relative to 77% of French-speaking planners.





Next, we want to examine whether the riskiness of this option is considered an important factor by financial planners. In Figure 101, 49% of financial planners strongly disagree to somewhat disagree that the sell-and-rent option is too risky for their clients while 18% of planners strongly agree to somewhat agree that this option is too risky for their clients. There is no difference between urban and rural financial planners or male and female planners. In terms of language, 46% of English-speaking financial planners strongly disagree to somewhat disagree that sell and rent to fund retirement too is risky for their clients compared to 70% of French-speaking financial planners (Pearson χ^2 p -value = 0.000).

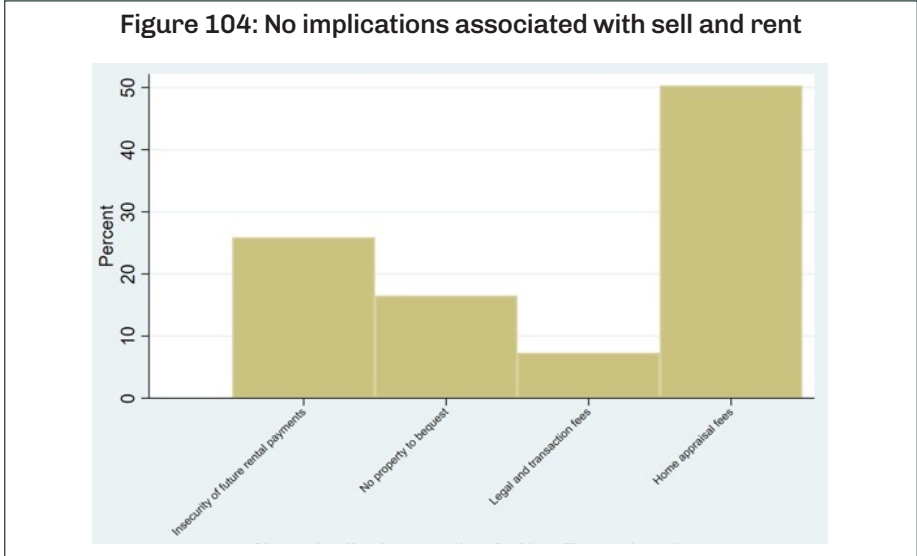
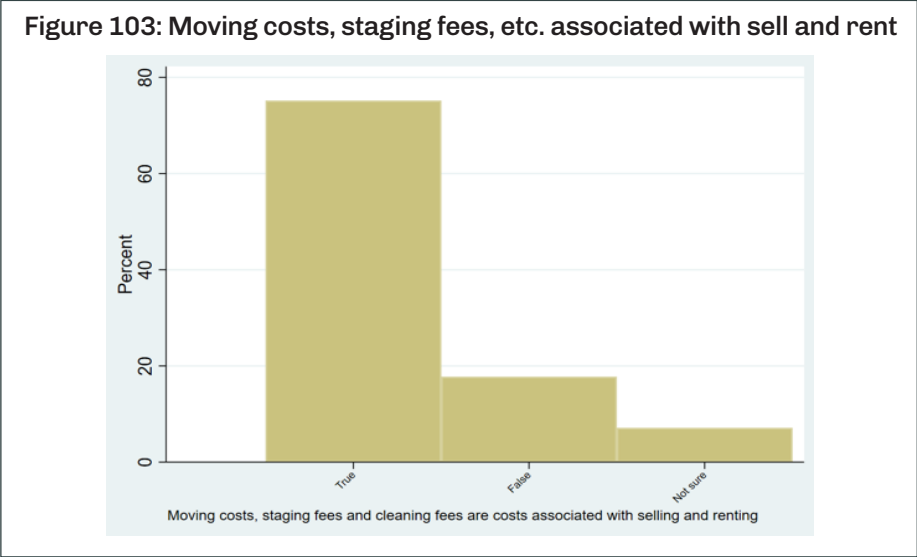
Financial Literacy: Sell-and-Rent Option

We asked financial planners three questions about the sell-and-rent option to verify their practical knowledge about this option. We asked financial planners to indicate whether the following statement is true or false: “Selling and renting reduces the responsibility for maintenance, property taxes, and other property-related expenses.” In Figure 102, 88% of financial planners answer correctly while only 6% answer incorrectly. There is no difference when the sample is divided by gender and location. However, the Pearson χ^2 is statistically significant for language ($p = 0.033$)—that is, 87% of English-speaking financial planners answer correctly compared to 98% of French-speaking planners.

Next, we asked financial planners to identify whether the following statement is true or false: “Moving costs, staging fees, and cleaning fees are costs associated with selling and renting.” We report the findings in Figure 103. Seventy-five percent of financial planners answer correctly while 18% answer incorrectly. Again, there is no difference when the sample is divided by gender and location. However, the Pearson χ^2 is statistically significant for language ($p = 0.000$)—that is, 73% of English-speaking financial planners answer correctly compared to 97% of French-speaking planners.

The final literacy question asked financial planners the following: “All the following are implications associated with selling and renting except. . . .” We report the findings in Figure 104. Fifty percent of financial planners answer correctly while the other 50% answer incorrectly. Forty-eight percent of male financial planners answer correctly compared to 54% of female planners. In terms of location, 50% of urban planners answer correctly relative to 52% of rural planners. The Pearson χ^2 test for difference is not statistically significant for gender, location, and language.

In summary, it appears that financial planners are knowledgeable about the sell-and-rent option. This is consistent with financial planners’ perceived knowledge about the sell-and-rent option reported in Figure 95.



Sell and Downsize

Next, we turn our attention to the sell-and-downsize option. This option is the most popular option selected by consumers as the most likely option to supplement retirement income (Figure 37). We asked financial planners to rate their knowledge of the sell-and-downsize option to fund retirement income and report the findings in Figure 105. Eighty-two percent of financial planners are very knowledgeable to extremely knowledgeable about this option (rating 7–10) compared to 4% of financial planners who were not knowledgeable about this option. The Pearson χ^2 test for difference is not statistically significant for gender and language. However, there is significant difference between urban and rural planners ($p = 0.005$)—that is, 84% of urban financial planners rate their knowledge as high to extremely high (rating 7–10) compared to 74% of rural financial planners.

Consistent with sell and downsize being ranked the number one choice of likely home equity release options to fund retirement by consumers, in Figure 106, 88% of financial planners agree that the sell-and-downsize option is a positive tool for improving retirement income. Only 2% feel that the sell-and-downsize option is not a positive tool to improve clients' retirement security and income. Also, dividing the sample by gender, location, and language does not affect the results.

Furthermore, in Figure 107, 81% of financial planners feel that the sell-and-downsize option is not harmful to clients' retirement security and income (strongly disagree to somewhat disagree with the statement). The Pearson χ^2 test for difference is not statistically significant for gender and location. However, there is a statistically significant difference between English- and French-speaking financial planners ($p = 0.026$). In fact, 83% of English-speaking financial planners strongly disagree to somewhat disagree that sell and downsize is harmful to clients compared to 78% of French-speaking financial planners.

Similarly, the majority of financial planners (62%) strongly disagree to somewhat disagree that the costs of the sell-and-downsize option is the primary reason for not recommending it as an option to fund retirement income (Figure 108). Dividing the sample by gender, location, and language does not affect the results.

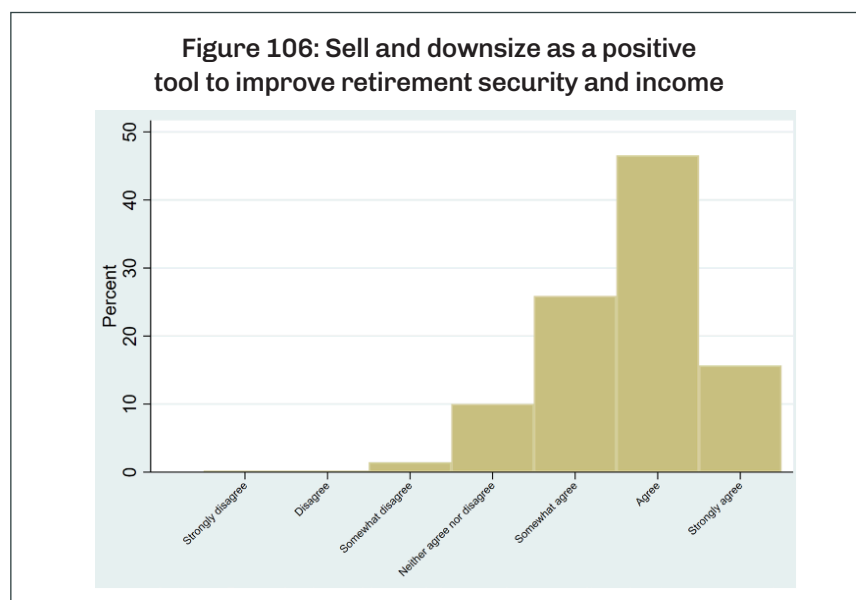
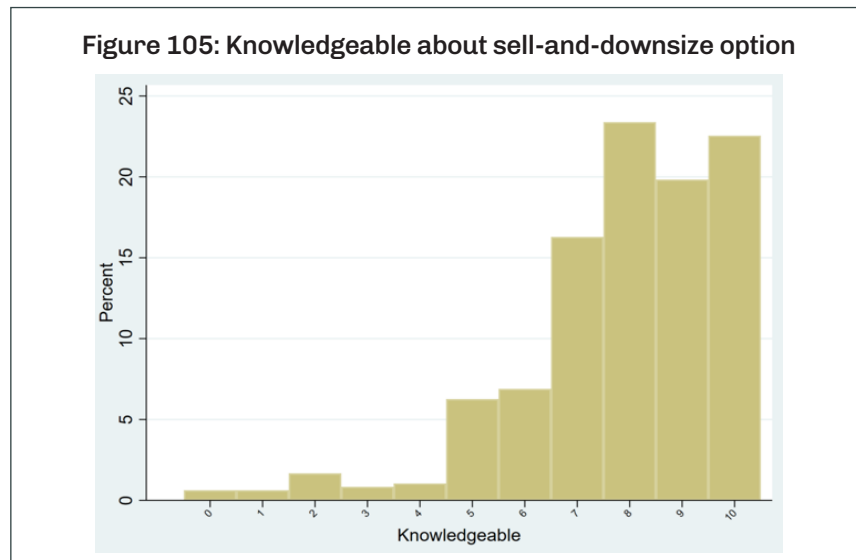
Next, we asked financial planners to indicate their agreement with the following statement: "In general, my clients do not want to use the sell-and-downsize option to fund retirement income." In Figure 109, 52% strongly disagree to somewhat disagree with the statement. Again, this result is not surprising given that sell and downsize is ranked the number one choice of likely home equity release options to fund retirement by consumers. Also, dividing the sample by gender, location, and language does not change the main results.

Given that sell and downsize is ranked fourth in terms of familiarity by consumers (Figure 36), it is possible that the product is complicated to explain to clients. However, in Figure 110, most of the financial planners (84%) strongly disagree to somewhat disagree that the sell-and-downsize option is too complicated to explain to clients. There is no statistical difference for gender, location, and language.

Finally, in Figure 111, 81% of financial planners strongly disagree to somewhat disagree that this option is too risky for clients to utilize to fund retirement income. This is expected given that consumers indicate sell and downsize is the mostly likely option to fund retirement income (Figure 37). There is no statistical difference for gender and language differences. However, the Pearson χ^2 test indicates that there is a difference between urban and rural planners ($p = 0.011$). Eighty-three percent of urban financial planners strongly disagree to somewhat disagree compared to 74% of rural financial planners.

In terms of financial literacy, we asked financial planners a single question regarding potential costs of the sell-and-downsize option (Figure 112).¹⁴ They were required to identify from a list the option “Is not a potential cost.” Ninety-one percent of financial planners identify the correct answer. (Lenders can demand that you pay the full amount at any time or tax costs.) The Pearson χ^2 test for difference indicates that there is no difference in gender and location. However, in terms of language, 92% of English-speaking financial planners answer correctly compared to 85% of French-speaking planners. The Pearson χ^2 test is statistically significant at the 1% level ($p = 0.001$).

Taken together, financial planners seem to agree that sell and downsize is a positive tool to improve retirement security and income. Costs, potential harm, and riskiness as well as product complexity are not major impediments when utilizing the sell-and-downsize option to fund retirement income, and this is consistent with the results in the consumer survey. In addition, the majority of financial planners answer the literacy question correctly.



¹⁴ We must be careful when interpreting financial literacy knowledge in this case since we asked only a single question on sell and downsize.

Figure 107: Sell and downsize is harmful to clients' retirement security and income

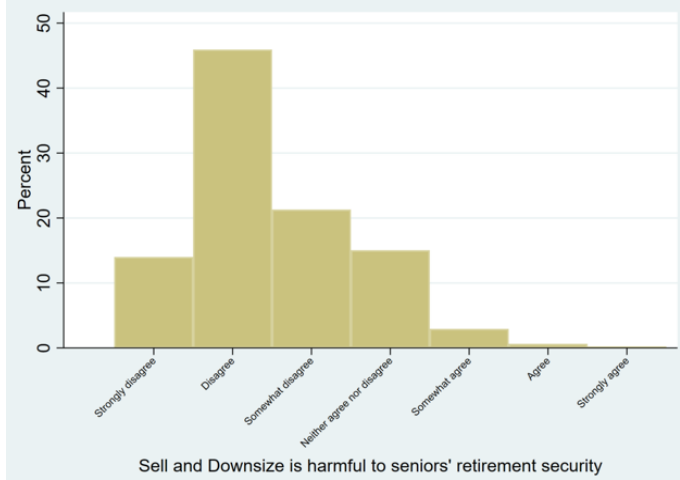


Figure 108: Sell and downsize costs are the primary reason for not recommending it

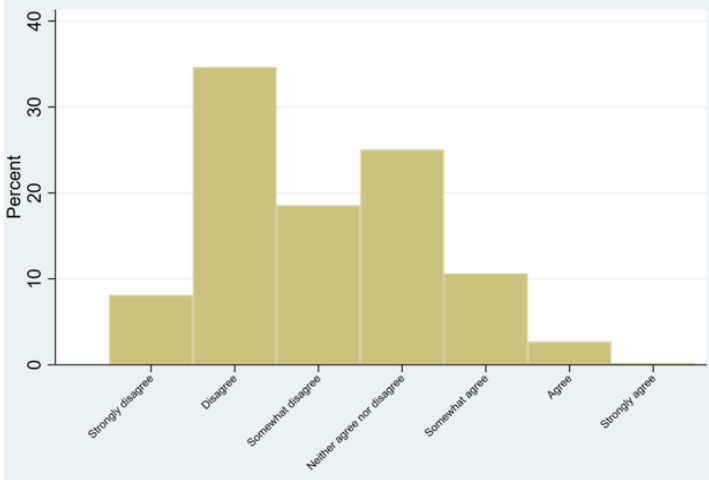


Figure 109: Clients do not want to use sell-and-downsize option to fund retirement income

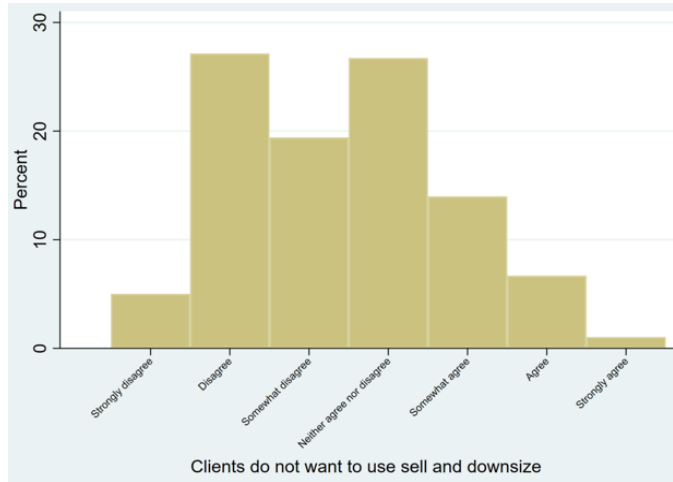


Figure 110: Sell and downsize is too complicated to explain to the client

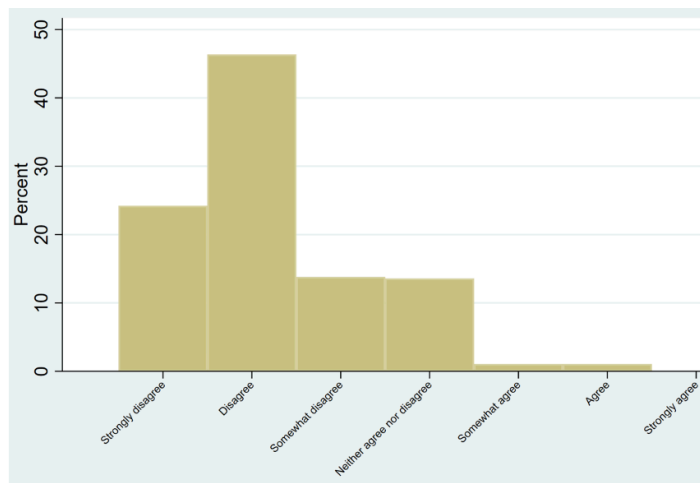
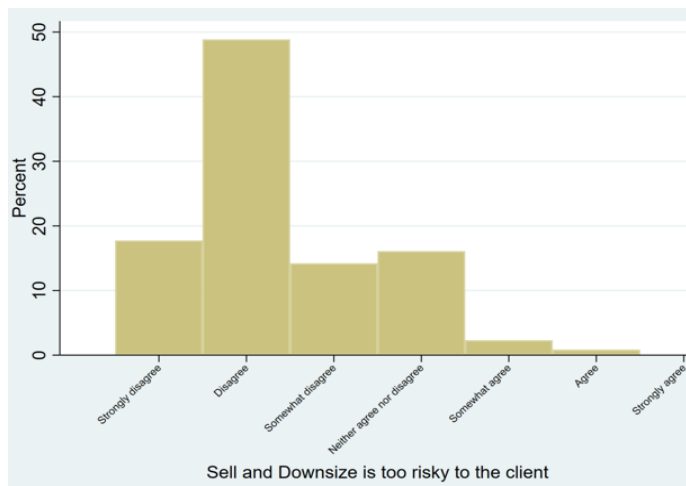
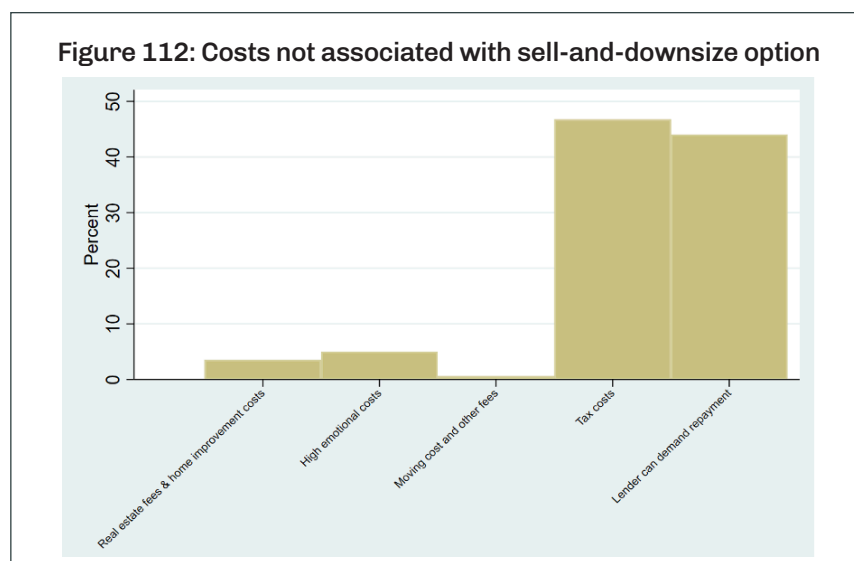


Figure 111: Riskiness of sell and downsize





HELOC

Like the previous options examined, financial planners rank their knowledge about this option as very high. In Figure 113, 82% of financial planners rank their knowledge about HELOC from 7 to 10. This is consistent with the consumer survey results where consumers rate financial planners' knowledge about home equity release options as high to extremely high. There is no difference for gender and language. However, the Pearson χ^2 test for language difference is statistically significant at the 1% level ($p = 0.010$). In particular, 82% of English-speaking financial planners indicate that their knowledge as high to extremely high (rating 7–10) compared to 88% of French-speaking financial planners.

Consistent with financial planners' perceived knowledge of HELOC, they view HELOC as a positive tool to improve clients' retirement security and income. In fact, 75% of financial planners agree that it is a positive tool (Figure 114). Only 11% disagree that HELOC is a positive tool. In terms of location, 74% of urban planners relative to 80% of rural planners strongly agree to somewhat agree that HELOC is a positive tool to improve retirement income. As for gender, 70% of male financial planners agree that it is a positive tool compared to 83% of female planners. The Pearson χ^2 test indicates a significant difference at the 5% level ($p = 0.043$). Similarly, 73% of English-speaking financial planners strongly agree to somewhat agree that HELOC is a positive tool compared to 85% of French-speaking planners. The Pearson χ^2 test for difference is statistically significant at the 10% level ($p = 0.054$).

Next, we asked financial planners to indicate their agreement with the following statement: "I view a HELOC as harmful to clients' retirement security and income." Fifty-one percent of financial planners strongly disagree to somewhat disagree that HELOC is harmful to retirement security and income. Twenty-nine percent strongly agree to somewhat agree that it is harmful while 20% are neutral (Figure 115). The results do not appear to differ by gender and location. However, 45% of French-speaking financial planners strongly disagree to somewhat disagree that HELOC is harmful to clients' retirement security and income relative to 52% of English-speaking financial planners. The Pearson χ^2 test indicates a statistically significant difference ($p = 0.010$).

In terms of costs, 56% of financial planners strongly disagree to somewhat disagree that HELOC costs is the primary reason for not recommending it as an option to fund retirement income (Figure 116). Again, the Pearson χ^2 test indicates that there is no difference when the sample is divided by gender, location, and language.

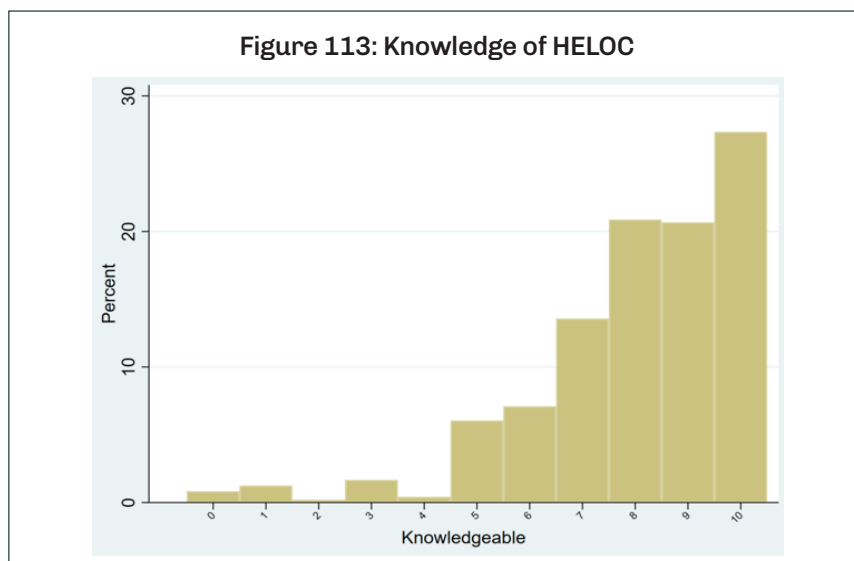
Next, we examined planners' perceptions of their clients' willingness to use HELOC to fund retirement income. In Figure 117, 35% of financial planners strongly disagree to somewhat disagree that their clients do not want to use the HELOC option to fund retirement income. However, 37% strongly agree to somewhat agree that clients do not want to HELOC to fund retirement income. This is somewhat surprising since consumers are very familiar with HELOC (Figure 36) and it is the second choice of likely options used to fund retirement income (Figure 37). The results do not differ by gender, location, and language.

Consistent with financial planners rating their knowledge of HELOC as high to extremely high, the majority of planners strongly disagree to somewhat disagree (80%) that it is too complicated to explain to clients, and hence, they are more likely to recommend it (Figure 118). The Pearson χ^2 test for difference is not statistically significant for gender, location, and language.

In terms of risk, 46% of financial planners strongly disagree to somewhat disagree that HELOC is too risky for their clients. In comparison, 31% agree that it is too risky to recommend to clients (Figure 119) and financial planners are not likely to recommend it as an option to fund retirement income. The results do not appear to differ by gender, location, and spoken language.

In terms of financial literacy, we asked financial planners a single question, and the results are reported in Figure 120.¹⁵ Planners were asked to indicate whether the following statement is true: "Lenders cannot demand that you pay the full amount at any time." The correct answer is false. In Figure 120, 61% of financial planners answer correctly compared to 30% incorrectly. This is slightly lower than expected given that 82% of financial planners rate their knowledge as high to extremely high in Figure 88. In terms of location, 63% of urban planners select the correct answer versus 53% of rural planners. However, there is no statistical difference between urban and rural planners. As for gender, 65% of male financial planners select the correct answer compared to 55% of female financial planners. The Pearson χ^2 indicates that there is a statistically significant difference between male and female financial planners ($p = 0.064$). Similarly, 62% of English-speaking financial planners answer incorrectly compared to 57% of French-speaking planners. The Pearson χ^2 test indicates that there is a difference with $p = 0.024$.

In summary, the majority of financial planners rate their knowledge of HELOC as high to very high and view this option a positive tool to improve clients' retirement security and income. About one-third of the financial planners view HELOC as harmful, risky, too complicated to explain, and costly and hence, are less likely to recommend this as an option to fund retirement income.



¹⁵ We must be careful when interpreting financial literacy knowledge in this case since we asked only a single question on HELOC..

Figure 114: HELOC is a positive tool that can improve client's retirement security and income

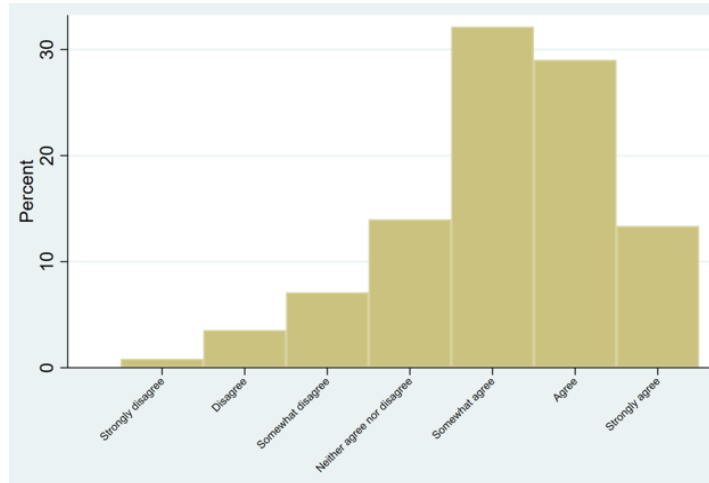


Figure 115: HELOC harmful to clients

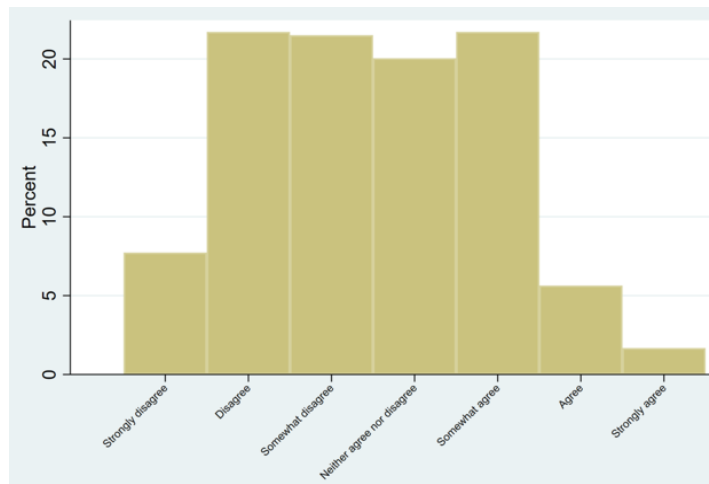
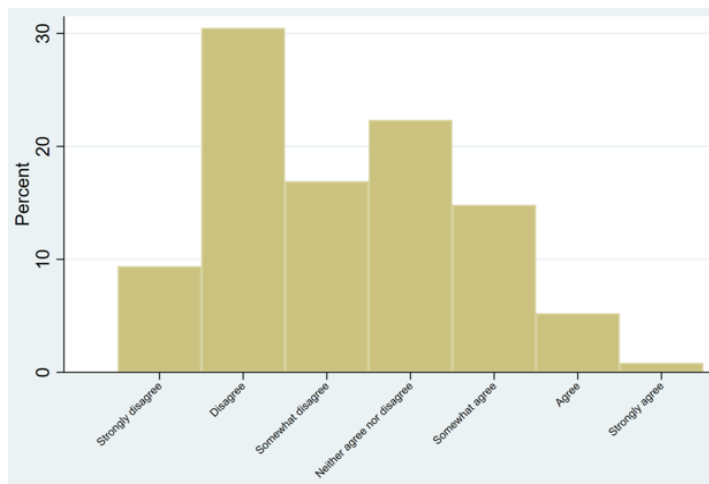
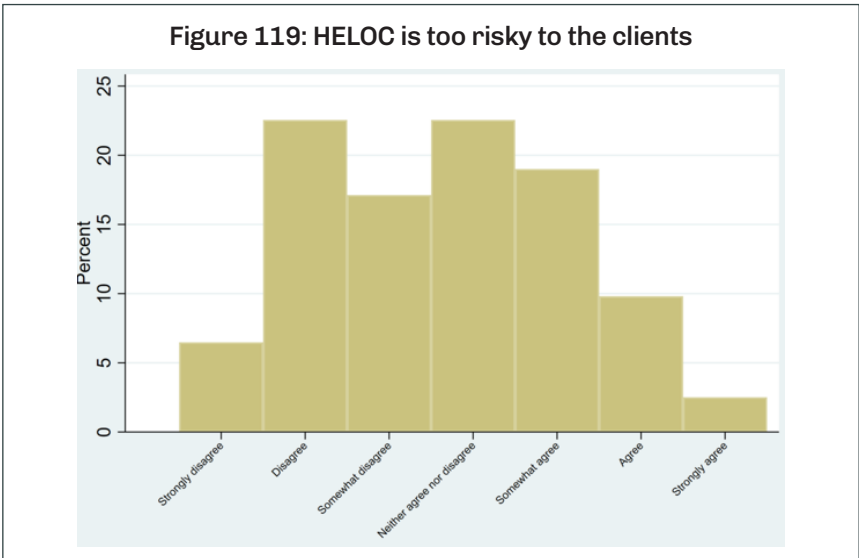
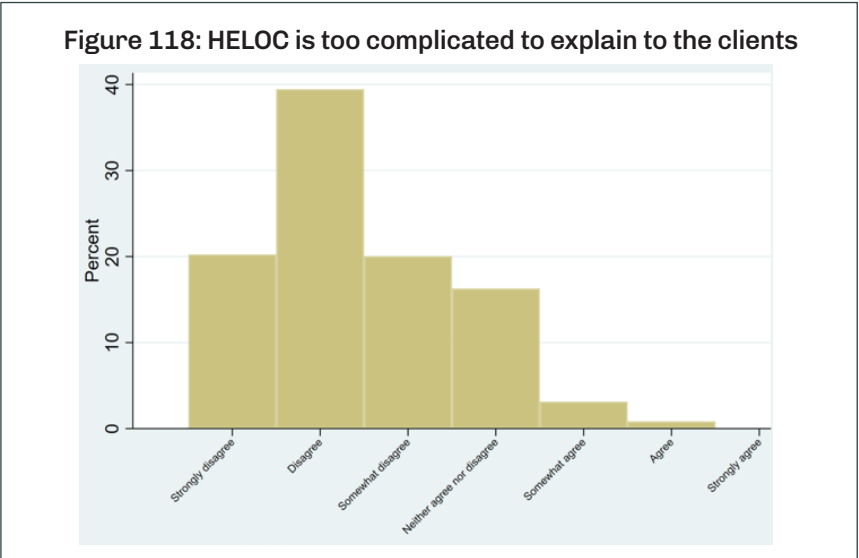
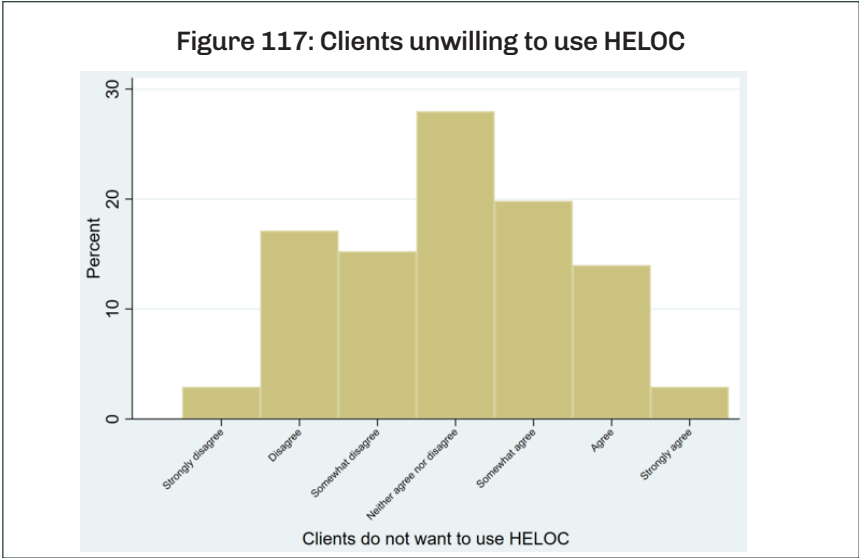


Figure 116: HELOC costs is the primary reason for not recommending it







Traditional Mortgage

The final home equity release option we examine is the traditional mortgage. Like the various options discussed above, we asked financial planners to rate their knowledge about traditional mortgage to fund retirement income. In Figure 121, 79% of financial planners rate their knowledge as high to extremely high (rating 7–10). In comparison, only 4% of financial planners rate their knowledge as low to not at all (rating 0–3). The Pearson χ^2 test indicates that there is a marginal difference between male financial planners and female financial planners ($p = 0.097$), and there is no difference in location and language.

Next, we asked financial planners to indicate their agreement with the following statement: “I view a traditional mortgage as a positive tool that can improve clients’ retirement security and income.” In Figure 122, 28% of financial planners strongly disagree to somewhat disagree that traditional mortgage is a positive tool to improve clients’ retirement security and income. In comparison, 44% of financial planners strongly agree to somewhat agree that traditional mortgage is a positive tool. There is no major difference when dividing the sample by gender. In terms of location, 43% of urban financial planners strongly agree to somewhat agree with the statement compared to 51% of rural financial planners. The Pearson χ^2 test indicates that there is no difference when we divide the sample by gender, location, and language.

In Figure 123, we report the results for the following statements: “I view a traditional mortgage as harmful to client’s retirement security and income.” Thirty-one percent of financial planners strongly disagree to somewhat disagree with the statement compared to 40% who strongly agree to somewhat agree. There is no major difference when dividing the sample by gender, location, and language.

Next, we examine whether costs of traditional mortgage are the primary reason why financial planners are less likely to recommend it as an option to fund retirement. The results are presented in Figure 124. Thirty-two percent of financial planners strongly disagree to somewhat disagree that costs are the primary factor for not recommending traditional mortgage to fund retirement income. In comparison, 39 % strongly agree to somewhat agree that costs is a majority factor. Using the Pearson χ^2 test, we can conclude that there is no major difference when we divide the sample by gender, location, and language spoken.

We then asked the financial planners to indicate their agreement with the following: “My clients do not want to use traditional-mortgage/second-mortgage option to fund retirement income.” In Figure 125, only 12% of

financial planners strongly disagree to somewhat disagree with the statement. In comparison, 66% strongly agree to somewhat agree that clients do not want to use traditional mortgage to fund retirement income. This is consistent with the results in the consumer survey. Traditional mortgages rank the lowest when it comes to familiarity with various home equity release options (Figure 36). There is no major difference when we divide the sample by gender, location, and language spoken.

Traditional mortgage can be a complicated option to fund retirement income. Individuals would have to take out a lump-sum amount via a mortgage and then would make monthly payments during retirement. Naturally, this is a unique way to look at a mortgage and is quite different from the way mortgages are typically used. In Figure 126, 70% of financial planners strongly disagree to somewhat disagree that traditional mortgage as an option to fund retirement income is too complicated to explain to clients. In comparison, only 7% strongly agree to somewhat agree that this option is too complicated to explain. There is no major difference when we divide the sample by gender and location. However, 67% of French-speaking financial planners strongly disagree to somewhat disagree that traditional mortgage to fund retirement is too complicated to explain to clients compared to 70% of English-speaking financial planners (Pearson χ^2 *p*-value = 0.011).

In addition to the complexity, costs, and potential harmful effects of traditional mortgage, we examine whether this option is too risky to recommend to clients as an option to fund retirement income. The results are reported in Figure 127. Thirty-four percent of financial planners strongly disagree to somewhat disagree that traditional mortgage is too risky compared to 39% who strongly agree to somewhat agree. In terms of location, 32% of urban planners strongly disagree to somewhat disagree relative to 42% of rural financial planners. In contrast, 41% of urban planners strongly agree to somewhat agree that traditional mortgage is too risky versus 34% of rural financial planners. There is no major difference when we divide the sample by gender and location. However, there is a significant difference between English- and French-speaking financial planners (Pearson χ^2 *p*-value = 0.005). Forty-five percent of French-speaking financial planners strongly disagree to somewhat disagree that traditional mortgage is too risky compared to 32% of English-speaking financial planners. Furthermore, 35% of French-speaking financial planners strongly agree to somewhat agree that traditional mortgage is too risky relative to 39% of English-speaking planners.

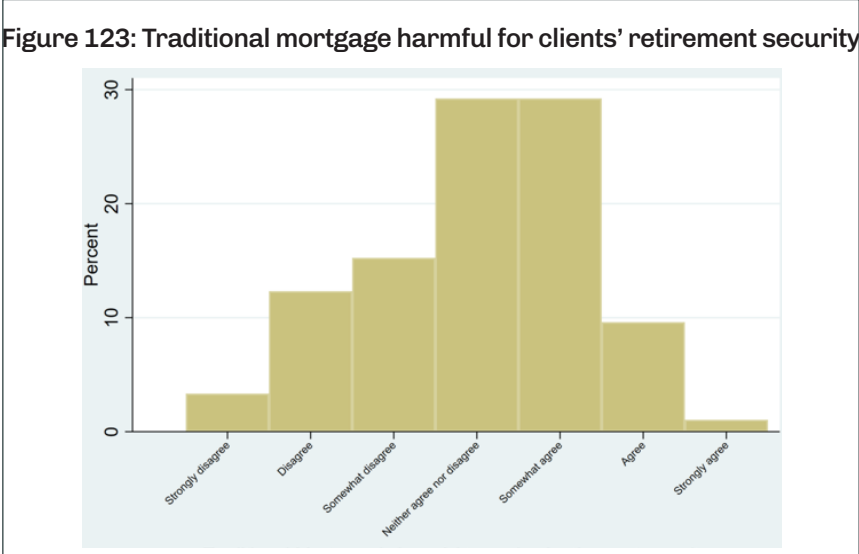
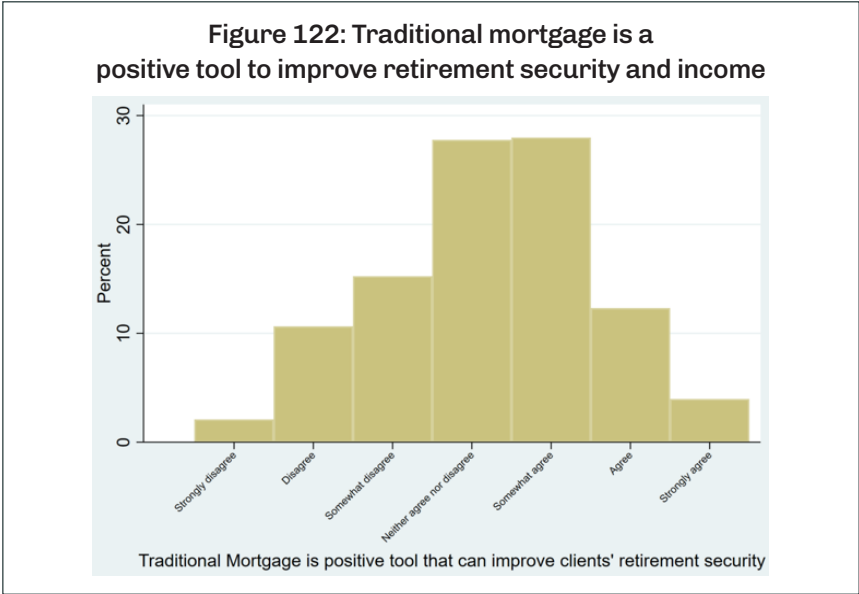
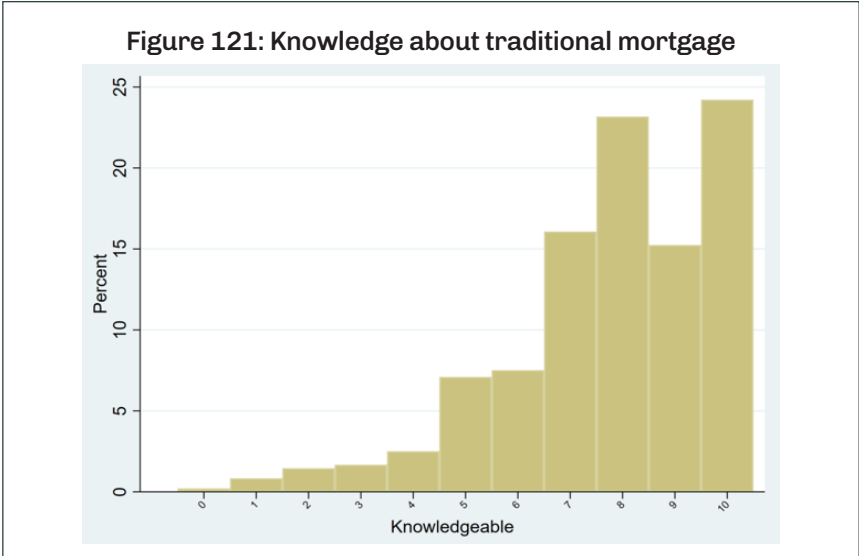
Finally, we asked financial planners the following statement regarding a second mortgage: "Let's say your home is worth \$400,000 and you have a current mortgage balance of \$200,000. You would only be allowed to borrow an additional \$160,000 with a second mortgage (non-HELOC private lender)."¹⁶ Participants are asked to indicate

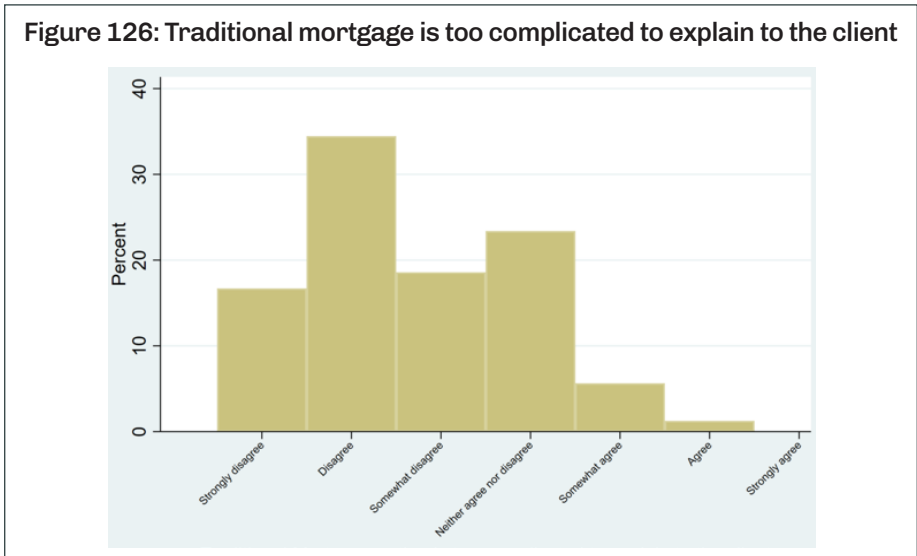
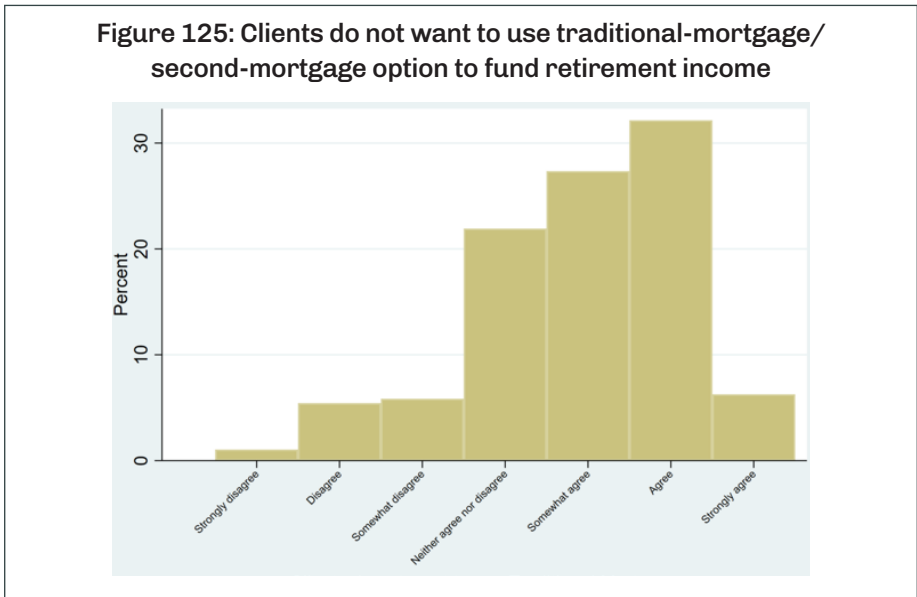
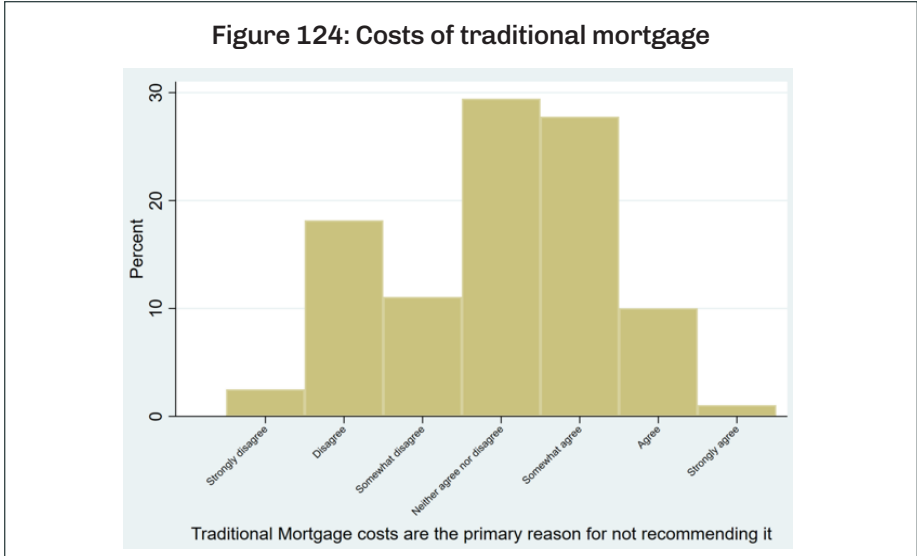
whether the statement is true, false or whether they are unsure. The results are reported in Figure 128. Only 21% of financial planners answer this question correctly. Sixty percent answer incorrectly while 19% were not sure. There is no major difference when we divide the sample by gender or language spoken while location is marginally significant (Pearson χ^2 *p*-value = 0.08).¹⁷

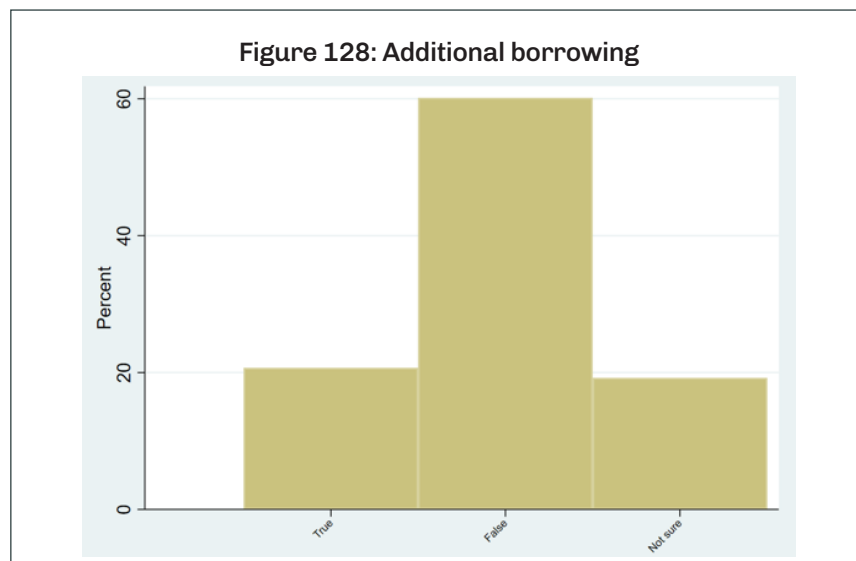
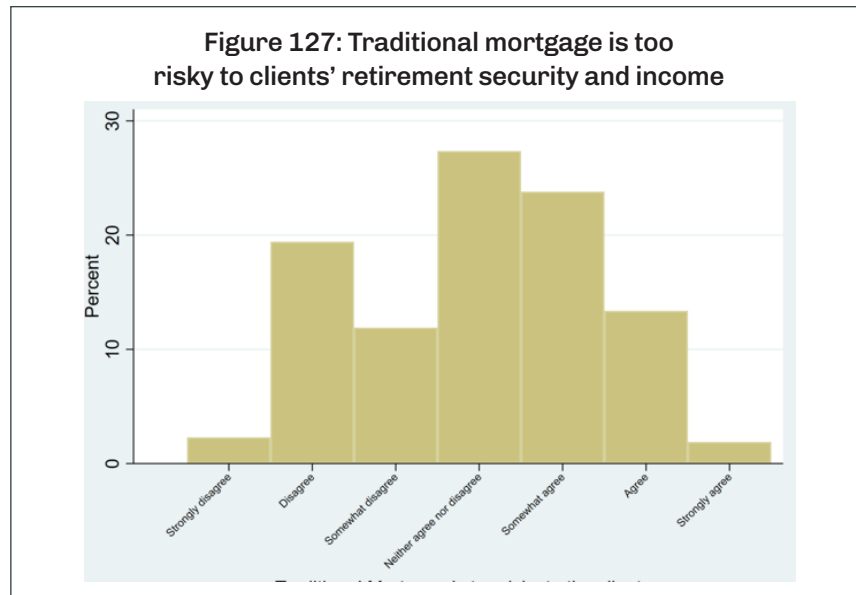
In summary, the majority of financial planners indicate that their knowledge of traditional mortgage is high to extremely high. Furthermore, most of the planners agree that this option is a positive tool to improve retirement income. In terms of whether traditional mortgage is harmful, the results are not clear. Similar findings are observed for costs and risk while the majority agree that this option is not too complicated to explain to clients. However, the majority of planners agree that clients do not want to use traditional mortgage. Finally, a significant majority of financial planners answer the literacy question incorrectly even though they rate their knowledge of this option as high to extremely high. However, we asked only a single literacy question. Therefore, this result should be interpreted with caution.

¹⁶ <https://www.canada.ca/en/financial-consumer-agency/services/mortgages/borrow-home-equity.html#toc3>

¹⁷ We must be careful when interpreting financial literacy knowledge in this case since we asked only a single question about traditional second mortgage.







Behavioral Bias

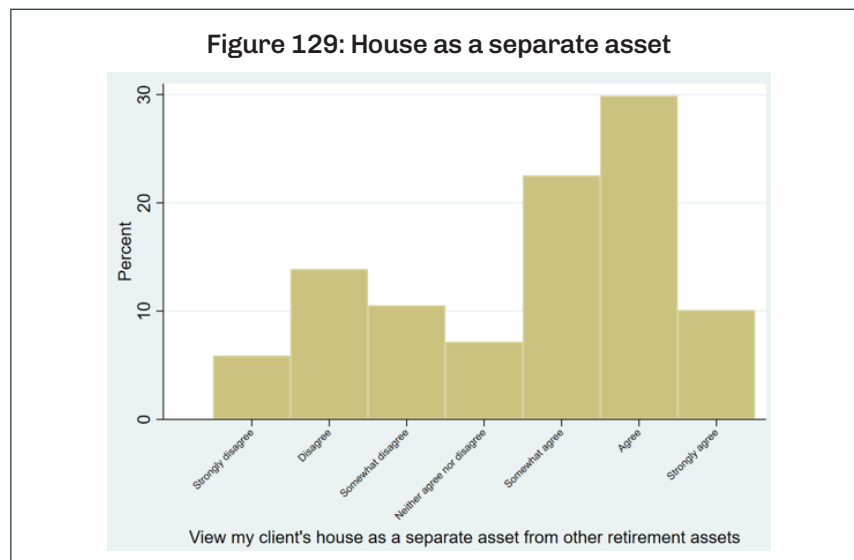
The presumptions that people make rational decisions based on all available information and that markets are efficient constitute the foundation of a large portion of classic economic and financial theory. These presumptions are questioned by behavioral finance, which also examines how people and markets behave in reality. Individuals may not systematically characterize issues, capture relevant facts, or synthesize information to build rules for making judgments when faced with ambiguity and an abundance of information to process. Instead, people could choose a less rational, more subjective course of action that is in line with their fundamental beliefs and desires. We expect that financial planners, charged with their own behavioral biases, might make suboptimal decisions for their clients especially when faced with complicated information in uncertain times.

In this section, we attempt to identify several behavioral biases suffered by financial planners.¹⁸ Whereas the goal of this report is to uncover a few behavioral biases that financial planners show, a future study might take a

¹⁸ *The focus of this research is not a robust determination of behavioral biases in planners and only a small number of questions were asked. So, results should be taken as exploratory only and that future research might look at this more robustly. This does not convey any limitation on "uncovering biases."*

deeper dive in understanding how these behavioral biases impact financial planners advice relating to the use of home equity for funding retirement. For instance, financial planners with mental accounting bias use arbitrary classifications to put different assets in different buckets, leading to suboptimal asset allocation. Such biased financial planners might put their clients' residential properties in a "safe" bucket and might advise against using these properties for funding retirement. Similarly, a financial planner who shows hindsight bias perceive past events as somewhat foreseeable and inevitable. The reconstructive nature of memory frequently contributes to this viewpoint. People do not have flawless memories when they reflect on the past; instead, they often "fill in the gaps" with things they want to believe. Financial planners suffering from hindsight bias avoid learning from the past, which can again lead to suboptimal advice when it comes to using home equity for retirement.

The first question is related to mental accounting bias. We asked financial planners to indicate their agreement with the following statement: "I view my client's house as a separate asset from other retirement assets." Financial planners who indicate strongly agree to somewhat agree with this statement display mental accounting bias. In fact, 62% of financial planners display this bias. In contrast, 30% of financial planners do not display this behavioral bias (Figure 129). Furthermore, there is no statistical difference between male and female financial planners as it relates to mental accounting bias. In terms of location, 30% of urban planners versus 35% of rural planners do not display mental accounting bias with the Pearson χ^2 ($p = 0.058$) being statistically significant at the 10% level.



Next, we asked several questions to test overconfidence bias and report the findings in Figures 130–132. In Figure 130,

we asked financial planners, "How easy do you think it was to predict the collapse of the housing market in the United States in 2007–2008?" Seventy-three percent of financial planners who do not display overconfidence bias select somewhat difficult to difficult. In terms of gender, 28% of males versus 26% of females display overconfidence bias. The Pearson χ^2 ($p = 0.046$) is statistically significant at the 5% level—that is, male financial planners display more overconfidence bias than female financial planners.

In Figure 131, we report the findings for the following question: "From 2005 through 2019, the compound annual return for stocks was 10 percent. In any given year, what returns do you expect your stock investments to produce?" Only 7% of financial planners display overconfidence bias (selecting above 10% or well above 10%).

Finally, in Figure 132, we report the results for the following question: How much ability do you believe you have in picking investments that will outperform the market? Ten percent of financial planners display overconfidence bias (selecting a fair amount of ability). The Pearson χ^2 is not statistically significant for gender ($p = 0.49$) and location ($p = 0.78$). Overall, overconfidence bias appears relatively low in two of the three questions asked.

Figure 130:

Figure 130:
How easy do you think it was to predict the 2008 financial crisis?

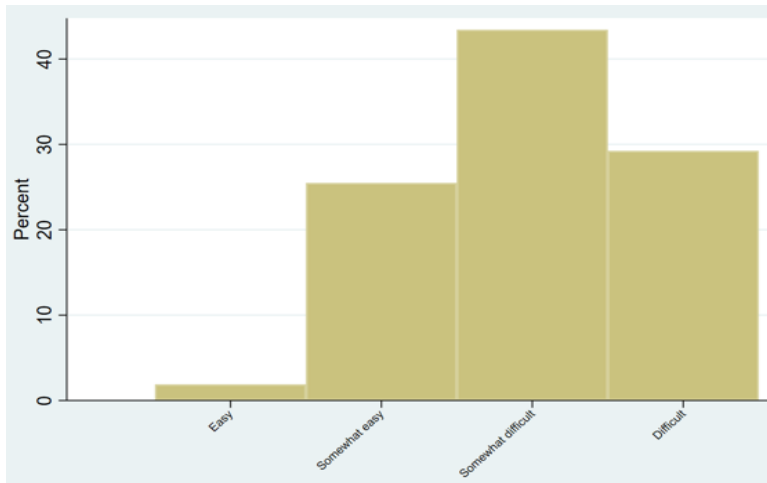


Figure 131: Future returns

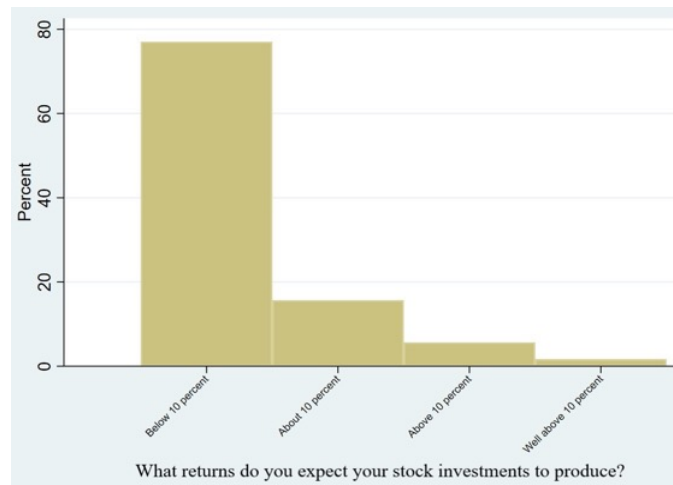
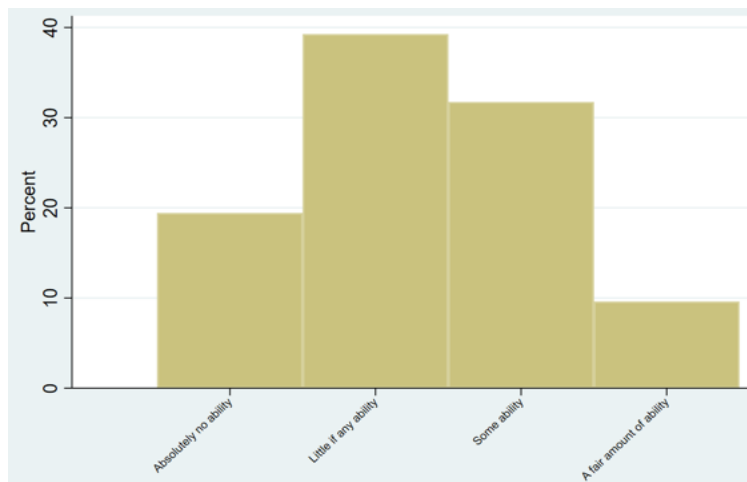
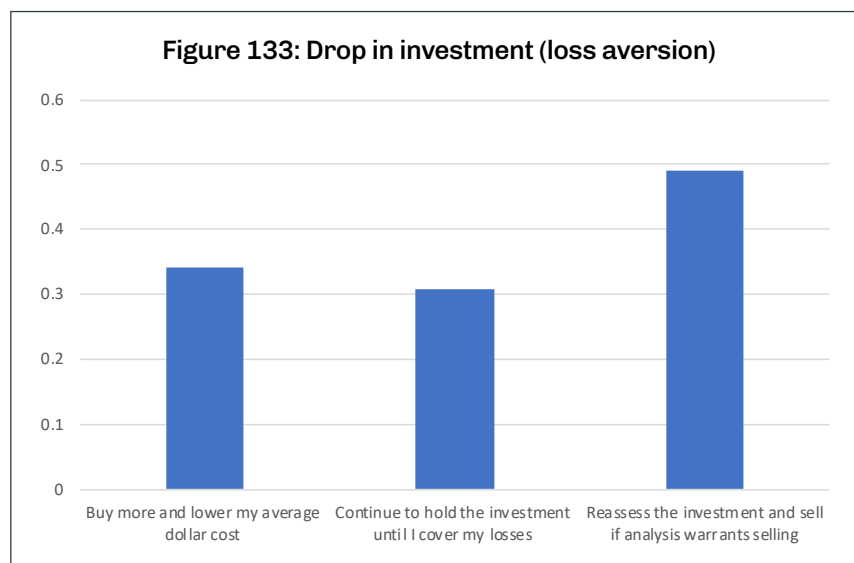


Figure 132: Asset-picking ability



Next, we examine loss aversion and report the findings in Figure 133. We asked the following question: “Imagine you make an investment that drops 25% in the first six months. You are unsure if it will come back. What would you normally do (NOT what you think you should do; what would you do)?”¹⁹ Thirty-one percent of financial planners display loss-aversion bias by selecting “I will continue to hold the investment until I cover my losses.” In terms of gender, 16% are male financial planners and 15% are female financial planners. Twenty-four percent are urban financial planners compared to 7% rural financial planners. The Pearson χ^2 ($p = 0.026$) is statistically significant at the 5% level—that is, urban financial planners display greater loss aversion than rural financial planners. Similarly, male financial planners display more loss aversion than female financial planners (Pearson χ^2 p -value = 0.023).



The next figure reports the findings for disposition effect. Investors displaying this behavioral bias, generally, tend to sell investments prematurely to lock in gains and hold on to losing investments too long in hopes of breaking even. In Figure 134, we report the results for the following statement: “I prefer to sell stocks whose prices recently increased.” Thirty percent of financial planners do not display this behavioral bias (strongly disagree to somewhat disagree) while 35% display this bias and 35% are neutral. There is no difference in this behavioral bias when examining gender (Pearson χ^2 p -value = 0.78) and location (Pearson χ^2 p -value = 0.33).

In Figure 135, we report the results for gambler’s fallacy. Gambler’s fallacy, for example, occurs when an individual erroneously believes that a certain random event is less likely or more likely to happen based on the outcome of a previous event or series of events. We asked to what extent financial planners agree with the following statement: “If in each of the last six months the S&P TSX Composite value increased, I would expect the value of the index to decrease in the next month.” Thirty-eight percent of financial planners (strongly disagree to somewhat disagree) do not display this behavioral bias compared to only 11% of financial planners who display this bias and the remaining 51% are neutral. The Pearson χ^2 for gender difference ($p = 0.81$) and location ($p = 0.54$) is not statistically significant at conventional levels.

In Figure 136, we report the findings for the final behavioral bias question (herding behavior). Like gambler’s fallacy, 37% of financial planners do not display this behavioral bias compared to only 7% of financial planners who display this bias. Fifty-six percent of financial planners select the neutral option. In terms of gender, 34% of males (strongly disagree to somewhat disagree) versus 41% of female financial planners do not display herding behavior. The Pearson χ^2 is statistically significant at the 10% level ($p = 0.068$). However, there is no difference by location.

¹⁹ The results can add up to more than 100% since participants were allowed to select more than one choice.

Figure 134: Sell stocks with recent price increase (disposition effect)

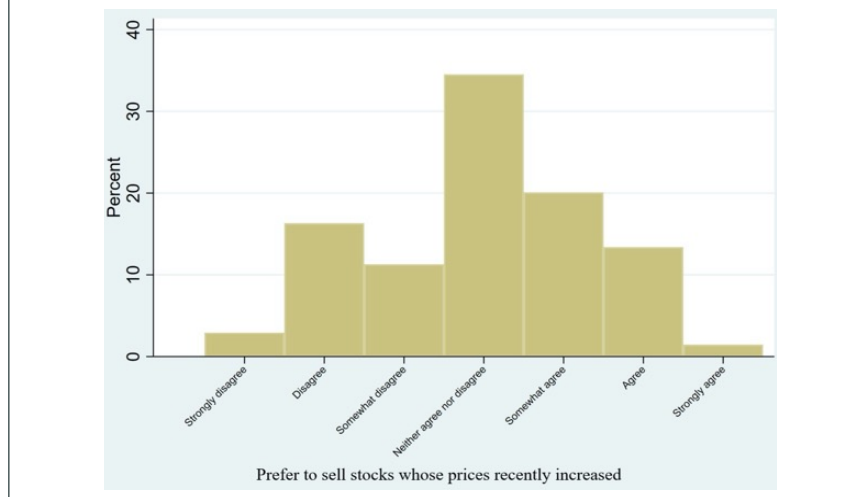


Figure 135: Index rise and reverse (gambler's fallacy)

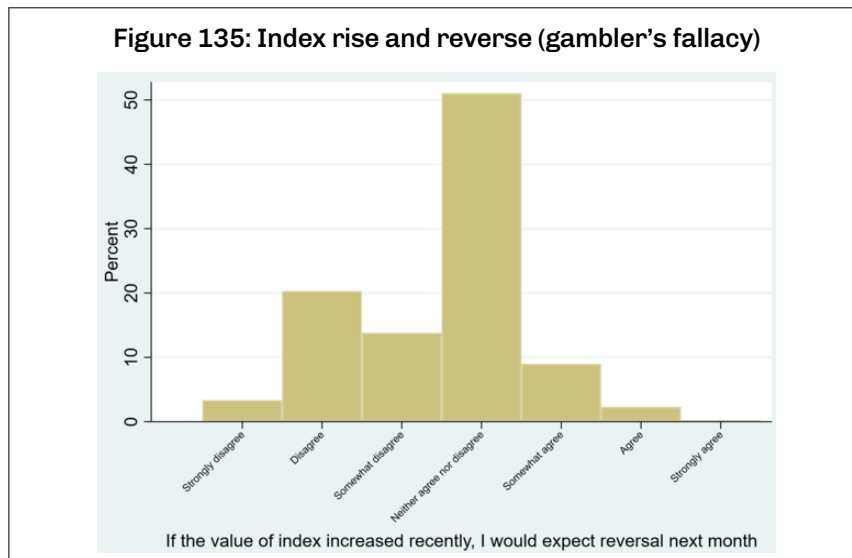
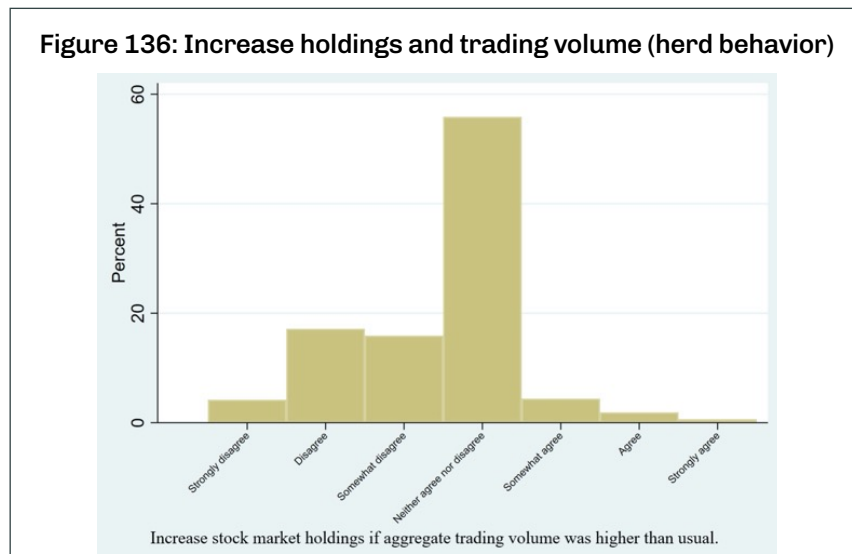


Figure 136: Increase holdings and trading volume (herd behavior)



The Impact of COVID-19

The final set of questions we asked financial planners is related to the impact of COVID-19 on retirement security, income, and planning. It is possible that COVID-19 increased the frequency of meetings with clients. In Figure 137, we report the results. Only 15% of financial planners did not experience an increase in the frequency of meetings with clients because of the COVID-19 pandemic. On the other hand, 62% of financial planners did experience an increase in the number of meetings with clients while 23% of financial planners are neutral. The Pearson χ^2 test indicates that there is no difference in gender and spoken language. However, there is a difference between urban versus rural financial planners ($p = 0.004$).

Next, we examine whether COVID-19 affected client's willingness to use home equity to fund retirement income. In Figure 138, we report the results for "Please rank the change in your clients' willingness, due to COVID-19, to utilize the following home equity release products." Thirty-three percent of financial planners indicate that sell and downsize, 27% for HELOC, and 16% for refinancing became more attractive to clients as a result of COVID-19. In terms of the second ranked option, 24% of financial planners select refinancing, 21% for sell and downsize, and 21% for HELOC.

The next question is geared toward determining COVID-19's impact on retirement income. In Figure 139, 32% of financial planners believe that COVID-19 had a positive impact on retirement income. Twenty-two percent of financial planners believe COVID-19 had a negative impact on retirement income while 46% report no change. The Pearson χ^2 test indicates there is no difference by gender ($p = 0.51$) and location ($p = 0.76$). In terms of French-speaking financial planners, 19% believe that COVID-19 had a positive impact while 29% believe that COVID-19 had a negative impact on retirement planning. In contrast, 32% of English-speaking financial planners believe that COVID-19 had a positive impact on retirement planning while 50% feel that the impact was negative. The Pearson χ^2 test for difference is statistically significant at the 1% level ($p = 0.00$).

In terms of retirement planning, 32% of financial planners indicate that COVID-19 had a positive impact on retirement planning while 23% indicate negative impact and 45% indicate no change (Figure 140). The Pearson χ^2 test indicates there is no difference by gender ($p = 0.51$) and location ($p = 0.76$). In terms of French-speaking financial planners, 23% view COVID-19 as positive impact while 33% view COVID-19 as negative impact on retirement planning. In contrast, 34% of English-speaking financial planners believe that COVID-19 had a positive impact on retirement planning while 46% believe that the impact was negative. The Pearson χ^2 test for difference is statistically significant at the 1% level ($p = 0.00$). The Pearson χ^2 test is not significant for gender differences and location.

Finally, we examine the impact of COVID-19 on living standards during retirement. In Figure 141, 22% of financial planners believe that COVID-19 positively impacted standard of living while 35% believe that COVID-19 negatively impacted standard of living during retirement. The Pearson χ^2 test for difference is not statistically significant ($p = 0.47$) for those with financial planners and those without. Similarly, there is no statistically significant difference for gender ($p = 0.81$) and location ($p = 0.35$).

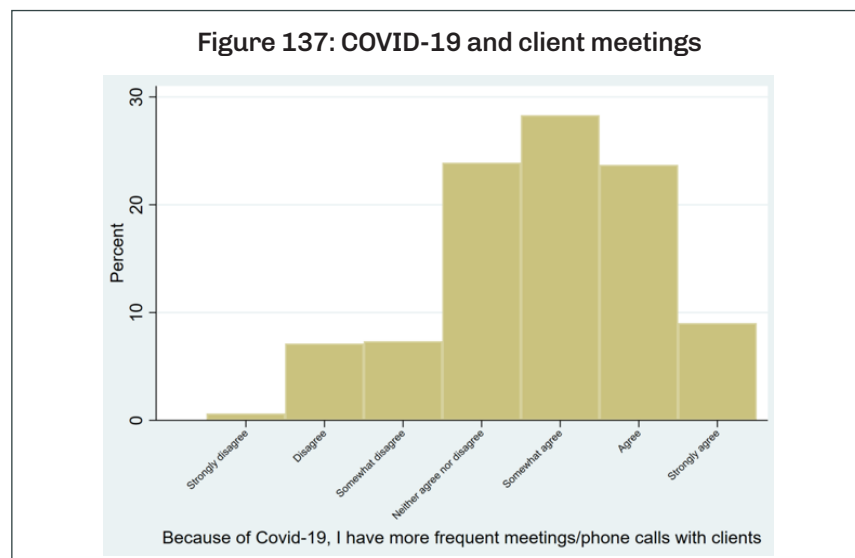


Figure 138: COVID-19 and clients' willingness to use home equity

Change in clients' willingness, due to COVID-19, to utilize the following products

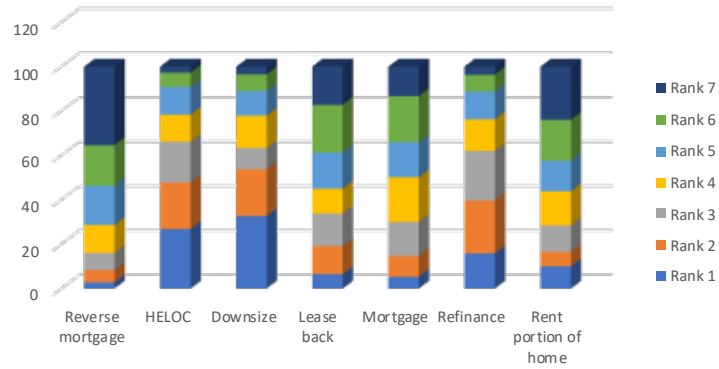


Figure 139: COVID-19 and retirement income

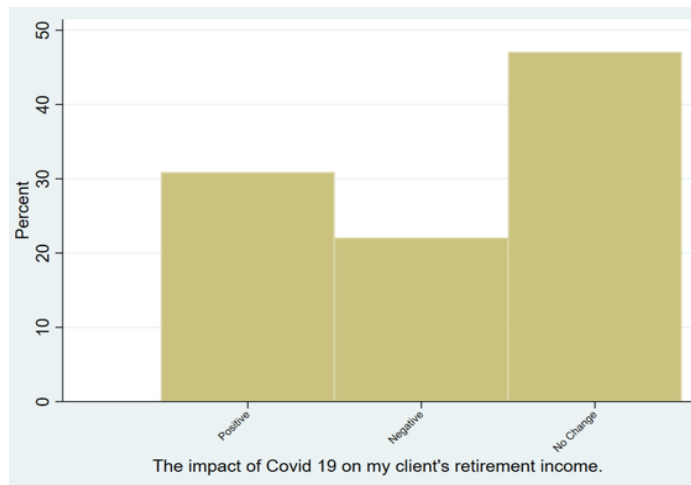
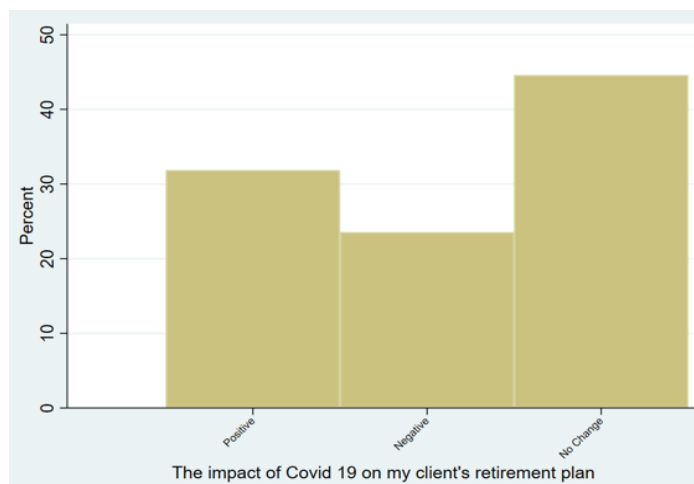
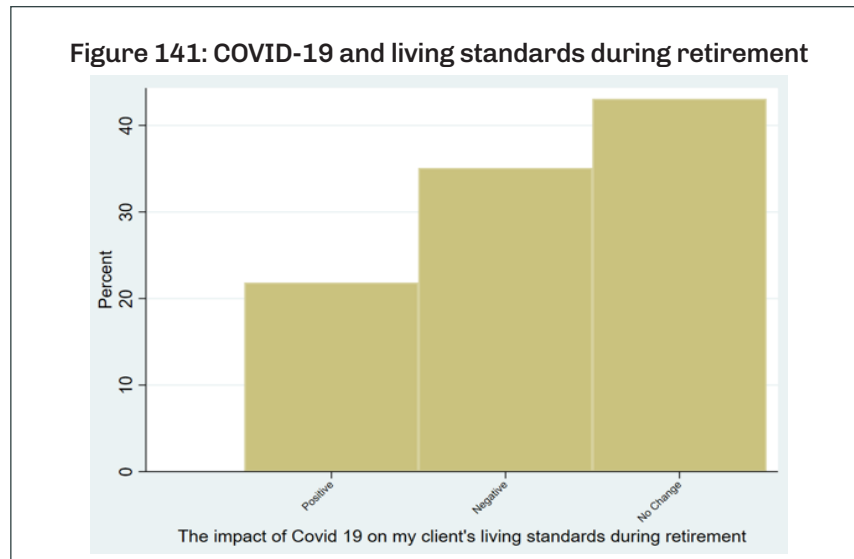


Figure 140: COVID-19 and retirement planning





Conclusions and Policy Recommendations

The aging Canadian population will continue to exert mounting pressure on pension systems, and retirees are likely to continue to use their personal assets to deal with the retirement funding shortfall and financial emergencies during retirement. The retirement problem of not having sufficient money to fund retirement income is not novel. This issue is further exacerbated as a large portion of retirees' assets are tied in illiquid personal residence. One way to tap into this resource to fund retirement income is through the use of home equity release products such as a reverse mortgage.

This report investigates the obstacles faced by cash-poor, asset-rich homeowners in accessing the equity built up in their homes. We describe various equity release schemes used across several developed nations and how such schemes can supplement retirement income in this report and investigates why, despite familiarity with equity release, only a handful of individuals benefit from home equity release products to pay for financial emergency or funding retirement shortfall. In this extensive study, we not only review Canadian clients' views on equity release but also gauge the knowledge, attitude, and perspectives of Canadian financial planners toward recommending equity release products to their clients.

We find that consumers are generally willing to access home equity when faced with financial hardships, such as paying for care, nursing, or support services. In this study, we document that lack of knowledge is the primary reason for not considering HERSs. Furthermore, we also find that cost reduction and having equity release products recommended by a financial planner makes them more attractive. Finally, our results document that in addition to a perception of complexity associated with these products, behavioral biases and personal attachment to one's residence play a vital role in lower adoption of HERSs. The results of this study suggest there may be a willingness to access home equity by future retirees and that there is less desire to bequeath assets to the next generation.

Our analysis of the financial planner surveys presents some striking findings. We show that although financial planners are comfortable providing advice about using HERSs, their preferred recommendation to meet clients' need for extra income during retirement is to sell investments. Our results further document that the majority of financial planners believe that HERSs are positive tools for improving retirement income and security. Finally, we document that financial planners' personal behavioral biases, and their lack of understanding and knowledge of the products can translate into lower adoption of these products by their clients.

Individuals hold a major fraction of their wealth as home equity and face longevity risk, long-term care risk, house price risk, and interest rate risk. Furthermore, emotionally charged homeowners, coupled with complexity and costs associated with equity release schemes, avoid tapping into home equity to fund retirement. One of the important policy implications of our findings is to offer educational programs to homeowners to educate them about equity release schemes. As individual knowledge about the costs, benefits, and risks associated with home equity products increase, homeowners may be more comfortable utilizing these products to fund retirement income. Furthermore, education and knowledge would also correct and, in certain cases, adjust for homeowners' behavioral biases toward utilizing home equity. Individuals who want to "age in place," with the right knowledge and information, can choose to unlock home equity while continuing to enjoy the comfort of their house. Such schemes should increase the overall utility for homeowners.

Changing demands and expectations of clients as well as the changing economic and financial environment highlight the need for a continuous and substantial awareness among financial planners of the benefits, costs, and risks of the various home equity products and how these products can be utilized to fund retirement income. It is imperative that various stakeholders such as the government and financial institutions provide incentives to increase individuals' understanding of the potential utility of home equity release options to fund shortfall in retirement income. Also, tax incentives and government protection against longevity risk can increase the attractiveness of home equity release products.

Our study also highlights the importance of financial planners' recommendations in the adoption of equity release schemes by their clients. Our results from the financial literacy questions highlight the need for implementing an education program specifically targeted at financial planners. These education programs should not only provide training on the various equity release schemes but should also highlight how planners' behavioral biases translate into their advice to clients.

This extensive study is a first step toward identifying the obstacles to using equity release schemes by Canadian homeowners and outlines how the obstacles could be tackled. The recommendations from this study can prove beneficial to those working to help older people improve their quality of life, to Canadian central and local governments, and to the financial sector. Although this study uses survey data from the Canadian market, the findings should be generalizable to other developed markets such as the United States and Europe.

Appendix A

Types of Reverse Mortgage

Home income plans	Homeowners take out a loan secured against the value of the home in exchange for a cash lump sum. They can borrow a sum of money up to a maximum loan-to-value ratio defined by the cash provider depending on their age (and partner's age if applicable). The lump sum is then used to buy a traditional flat annuity from an insurance company or an annuity provider. Annuity benefits are used to pay the interest on the mortgage and regular retirement expenditures. The amount originally borrowed is repaid only when the house is sold.
Interest-only mortgages	Interest charged by the lender to be paid back on a monthly basis. The loan is secured against the value of the home and repaid eventually only when the house is sold.
Roll-up mortgages	Homeowners take out a loan secured against the value of the home as regular income or a cash lump sum but are not required to pay the interest on the loan until the house is sold. As a result, interest is added to the loan outstanding debt.
Fixed repayment lifetime mortgages	The borrower agrees to pay the lender a fixed higher sum than the amount borrowed when the house is sold rather than accumulate regular interest payments.
Enhanced lifetime mortgages	If the health and lifestyle of the homeowner are assessed to be relatively poor, the equity release terms are enhanced by offering reduced interest rates or by increasing the maximum lump sum that can be released.

Source: Bravo et al. (2019)

Appendix B

Costs and Benefits of Various Types of HERRS

Type of HERRS	Costs	Benefits	Suitability	Cash Flow	Risks
1. Selling and downsizing	<ul style="list-style-type: none"> High financial costs associated with downsizing including Realtor commission, legal fees, closing costs, home improvement costs, land transfer tax, title insurance, moving costs, mortgage discharge fees, staging fees, cleaning fees, and monthly condo fees High emotional costs to downsizing, which often involve leaving a familiar neighborhood where family or friends are located; require that people leave their current house. For some people, this can be problematic, as many older households have an emotional attachment to their dwelling, and they prefer to stay in it as long as possible (aging in place) 	<ul style="list-style-type: none"> Easy to understand and to perform; it allows households to continue to be homeowners Downsizing can free up income needed to pay taxes, insurance, upkeep, and utility bills, which typically run about 3.25% of the value of a house Retirement income Reduce maintenance costs Move to better, more desirable location 	YES	<p>Inflows</p> <ul style="list-style-type: none"> Selling price of current home <p>Outflows</p> <ul style="list-style-type: none"> Purchase price of new smaller dwelling Closing costs, land transfer taxes, title insurance Moving costs 	<ul style="list-style-type: none"> Emotional attachment to current home Smaller home unable to meet expectations
2. Selling and moving to a rental dwelling	<ul style="list-style-type: none"> High housing costs as well as insecurity about future rental payments No property to bequest to children or grandchildren Real estate fees, legal costs, and mortgage discharged fees Moving costs, staging fees, and cleaning fees 	<ul style="list-style-type: none"> Easy to understand and to perform Provide income to fund retirement and other expenses Reduce the responsibility for maintenance, property taxes, and other property-related expenses Eliminate maintenance costs Move to better, more desirable location 	YES	<p>Inflows</p> <ul style="list-style-type: none"> Selling price of current home <p>Outflows</p> <ul style="list-style-type: none"> Monthly rental costs Closing costs, land transfer taxes, title insurance Moving costs, staging fees, and cleaning fees 	<ul style="list-style-type: none"> Future rental costs increase Potential risk of lease not being renewed Emotional attachment to current home

Type of HERSS	Costs	Benefits	Suitability	Cash Flow	Risks
<p>3. Sell the house and rent it back (sale and lease back)</p>	<ul style="list-style-type: none"> Financially unattractive and leave the former homeowners at the mercy of the future landlords, thus leading to insecurity In order to limit this risk, the importance of carefully checking the conditions (selling price, future rent, tenure security, and responsibility for maintenance) of sale-and-lease-back arrangements before engaging in them is stressed Considered it strange to rent back the dwelling that they previously owned No property to bequest to children or grandchildren Real estate fees, legal costs, and mortgage discharged fees Moving costs, staging fees, and cleaning fees 	<ul style="list-style-type: none"> Provide income to fund retirement and other expenses Lack of responsibility for maintenance, property taxes, and other property-related expenses Remain in existing home Easy to understand and to perform 	YES	<p>Inflows</p> <ul style="list-style-type: none"> Selling price of current home <p>Outflows</p> <ul style="list-style-type: none"> Monthly rental costs Closing costs, land transfer taxes, title insurance Moving costs, staging fees, and cleaning fees 	<ul style="list-style-type: none"> Future rental costs increase Potential risk of lease not being renewed Emotional attachment to current home
<p>4. Revenue Mortgage</p>	<ul style="list-style-type: none"> Pay taxes and insurance Home appraisal fee Setup fee Prepayment penalty Legal fees for closing costs or independent legal advice Time needed to settle an estate may be longer than the time allowed to repay a reverse mortgage Less money in your estate to leave to your children or other beneficiaries Higher interest rate vs. other types of mortgages 	<ul style="list-style-type: none"> Do not pay taxes on the money you borrow Does not affect OAS or GIS You have the option as to when or how you receive the money A source of income for everyday needs Stay in your house without making any loan payments Never owe more than the worth of your house Move the timing of bequest forward prior to senior's death Still own your home 	YES	<p>Inflows</p> <ul style="list-style-type: none"> Lump sum or annual payments from a lender <p>Outflows</p> <ul style="list-style-type: none"> Expense associated with setting up the agreement 	<ul style="list-style-type: none"> Increase in interest rates Longevity risk

Type of HERSs	Costs	Benefits	Suitability	Cash Flow	Risks
5. HELOC	<ul style="list-style-type: none"> • It requires discipline to pay it off because you are usually required to only pay monthly interest • Large amounts of available credit can make it easier to spend higher amounts and carry debt for a long time • To switch your mortgage to another lender, you may have to pay off your full HELOC and any credit products you have with it • Lender can take possession of your home if you miss payments even after working with your lender on a repayment plan • Lender can reduce credit limit at any time • Lender can demand that you pay the full amount at any time • Variable interest rates can change and hence, increase monthly interest payments 	<ul style="list-style-type: none"> • Easy access to available credit • Pay interest on the amount you used • No prepayment penalty • Flexible and can be set up to meet the borrower's need • Move the timing of bequest forward prior to senior's death • Still own your home 	YES	<p>Inflows</p> <ul style="list-style-type: none"> • Lump sum or monthly/annual withdrawal from a lender <p>Outflows</p> <ul style="list-style-type: none"> • Loan service payments • Expense associated with setting up the agreement 	<ul style="list-style-type: none"> • Interest rate change • Lender requiring full repayment on demand • Lender can take possession of home for missed payments

Type of HERSS	Costs	Benefits	Suitability	Cash Flow	Risks
6. Traditional/ second mortgage (non-HELOC)	<ul style="list-style-type: none"> Regular repayment of principal and interest Typically, higher rates and fees than HELOC Applicant may have to pay for appraisal fees, title search fees, title insurance fees, and legal fees associated with a second mortgage loan Large penalties Since income and credit history both play an integral part in the qualification process of a second mortgage, many Canadians 55-plus or Canadians who are approaching retirement may not qualify Missed payments can result in default and loss of home 	<ul style="list-style-type: none"> Short-term financing solution One lump sum deposited to your bank account Lower interest rate than other unsecured debt 	NO	<p>Inflows</p> <ul style="list-style-type: none"> Lump sum from a lender <p>Outflows</p> <ul style="list-style-type: none"> Loan service payments Expense associated with setting up the agreement 	<ul style="list-style-type: none"> Interest rate change Lender requiring full repayment on demand Lender can take possession of home for missed payments Prepayment penalty risk
7. Refinance existing home	<ul style="list-style-type: none"> May result in a change to the interest rate on your mortgage or a different interest rate for the refinanced portion Appraisal fees Title search Title insurance Legal fees 	<ul style="list-style-type: none"> One lump sum deposited to your bank account Generally, lower interest rates 	NO	<p>Inflows</p> <ul style="list-style-type: none"> Lump sum from a lender <p>Outflows</p> <ul style="list-style-type: none"> Loan service payments Expense associated with setting up the agreement 	<ul style="list-style-type: none"> Interest rate change Lender requiring full repayment on demand Lender can take possession of home for missed payments Prepayment penalty risk

Type of HERRS	Costs	Benefits	Suitability	Cash Flow	Risks
8. Renting out a portion of the house	<ul style="list-style-type: none"> • Loss of living space 	<ul style="list-style-type: none"> • Remain in your home • Generate income to fund retirement • Easy to understand and to perform 	YES	<p>Inflows</p> <ul style="list-style-type: none"> • Monthly rental income <p>Outflows</p> <ul style="list-style-type: none"> • Maintenance costs 	<ul style="list-style-type: none"> • Unable to find suitable tenants • Potential landlord-tenant conflicts

References

- Angelini, V., Brugiavini, A., and Weber, G. (2011). Does downsizing of housing equity alleviate financial distress in old age? In A. Borsch-Supan, M. Brandt, and M. Schroder (Eds.), *The individual and the welfare state* (pp. 93–101). London: Springer.
- Angelini, V., Brugiavini, A., and Weber, G. (2014). The dynamics of homeownership among the 50+ in Europe. *Journal of Population Economics*, 27(3), 797–823.
- Barker, D. and Miller, E., 2009. Homeownership and child welfare. *Real Estate Economics*, 37(2), pp.279-303.
- Banks, J., Blundell, R., Oldfield, Z., and Smith, J. P. (2012). Housing mobility and downsizing at older ages in Britain and the USA. *Economica*, 79(313), 1–26.
- Beal, D. J. (2001). Research: Use of housing wealth by older Australians. *Australasian Journal on Ageing*, 20(3), 127–132.
- Blundell, R., Crawford, R., French, E., and Tetlow, G. (2016). Comparing retirement wealth trajectories on both sides of the pond. *Fiscal Studies*, 37(1), 105–130.
- Bravo, J. M., Ayuso, M., and Holzmann, R. (2019). Making use of home equity: *The potential of housing wealth to enhance retirement security* (No. 12656). IZA Discussion Papers.
- Brownfield, C. (2014, May). The fourth pillar—The role of home equity release in retirement funding. In *Actuaries Institute Financial Services Forum*, Sydney.
- Binder Dijker Otte (BDO) Canada Affordability Index (2019).
- Binder Dijker Otte (BDO) Canada Affordability Index (2022).
- Canadian Retirement Survey (hoopp.com). (2021). https://hoopp.com/docs/default-source/newsroom-library/research/2021_canadian_retirement_survey_final.pdf
- Chiuri, M. C., and Jappelli, T. (2010). Do the elderly reduce housing equity? An international comparison. *Journal of Population Economics*, 23(2), 643–663.
- Davidoff, T., Gerhard, P., and Post, T. (2017). Reverse mortgages: What homeowners (don't) know and how it matters. *Journal of Economic Behavior and Organization*, 133, 151–171.
- Delfani, N., De Deken, J., and Dewilde, C. (2014). Home-ownership and pensions: Negative correlation, but no trade-off. *Housing Studies*, 29(5), 657–676.
- Devesa, J. E., et al. (2016). *La revolución de la longevidad y su influencia en las necesidades de financiación de los mayores*. Madrid: Fundación Edad & Vida.
- Dolan, A., McLean, P., & Roland, D. (2005). Home equity, retirement incomes and family relationships. In Australian Institute of Family Studies Conference, February 9–11.
- Doling, J., and Elsinga, M. (2013). Demographic change and housing wealth: *Homeowners, pensions and asset-based welfare in Europe*. New York: Springer.
- Haffner, M. E., Ong, R., and Wood, G. A. (2015). Mortgage equity withdrawal and institutional settings: An exploratory analysis of six countries. *International Journal of Housing Policy*, 15(3), 235–259.
- Hoekstra, J., and Dol, K. (2021). Attitudes towards housing equity release strategies among older home owners: A European comparison. *Journal of Housing and the Built Environment*, 36, 1347–1366.
- Hopkins, J. P. (2017). The effect of low reverse mortgage literacy on usage of home equity in retirement income plans. *Journal of Financial Planning*, 30(5), 44–52.
- Hurd, M. D. (2002). "Portfolio Holdings of the Elderly." In *Household Portfolios*, ed. Luis Guiso, Michael Haliassos and Tullio Jappelli, 431–472. MIT Press.

-
- Hurd, M. D., and Rohwedder, S. (2008a). The adequacy of economic resources in retirement. Michigan Retirement Research Center Research Paper (2008-184).
- Hurd, M. D., and Rohwedder, S. (2008b). *The retirement consumption puzzle: Actual spending change in panel data* (No. w13929). Cambridge, MA: National Bureau of Economic Research.
- Jones, A., Geilenkeuser, T., Helbrecht, I., and Quilgars, D. (2012). Demographic change and retirement planning: Comparing household's views on the role of housing equity in Germany and the UK. *International Journal of Housing Policy*, 12, 27–45.
- Mathä, T. Y., Porpiglia, A., and Ziegelmeyer, M. (2017). Household wealth in the euro area: The importance of intergenerational transfers, homeownership and house price dynamics. *Journal of Housing Economics*, 35, 1–12.
- Modigliani, F., and Brumberg, R. (1954). Utility analysis and the consumption function: An interpretation of cross-section data. *Franco Modigliani*, 1(1), 388–436.
- Mortgage Professional Canada (2020) Rapidly evolving expectations in the housing market, <https://mortgageproscan.ca/docs/default-source/consumer-reports/rapidly-evolving-expectations-in-the-housing-market---report-1-august-2020-en.pdf>
- Munnell, A. H., Walters, A. N., Belbase, A., and Hou, W. (2020). Are homeownership patterns stable enough to tap home equity? *Journal of the Economics of Ageing*, 17, 100277.
- Nakajima, M. (2012). Everything you always wanted to know about reverse mortgages but were afraid to Ask. *Business Review*, Q1.
- Nakajima, M., and Telyukova, I. A. (2013). *Housing in retirement across countries*. Boston College Center for Retirement Research Working Paper (2013-18).
- Nakajima, M., and Telyukova, I. A. (2017). Reverse mortgage loans: A quantitative analysis. *Journal of Finance*, 72(2), 911–950.
- O'Mahony, L. F. (2009) 'Homeownership, debt and default: the affective value of home and the challenge of affordability.', in *Affordable housing and public/private partnerships*. Farnham, Surrey: Ashgate, pp. 169-205.
- O'Mahony, L. F., and Overton, L. (2015). Asset-based welfare, equity release and the meaning of the owned home. *Housing Studies*, 30(3), 392–412.
- Olsberg, D., and Winters, M. (2005). *Ageing in place: Intergenerational and interfamilial housing transfers and shifts in later life*. Working Paper.
- Ong, R., Haffner, M., Wood, G., Jefferson, T., and Austen, S. (2013). Assets, debt and the drawdown of housing equity by an ageing population. Positioning Overmortgage Paper, No. 153, Australian Housing and Urban Research Institute, Melbourne.
- Overton, L., and Doling, J. (2009). The market in reverse mortgages: Who uses them and for what reason? *Hypostat*, 12–15.
- Pfau, W. D. (2015). Incorporating home equity into a retirement income strategy. Available at SSRN 2685816.
- Pearson, B., and Lacombe, D. (2021). The relationship between home equity and retirement satisfaction. *Journal of Personal Finance*, 20(1), 40–50.
- Poterba, J., Venti, S., and Wise, D. (2011). The composition and drawdown of wealth in retirement. *Journal of Economic Perspectives*, 25(4), 95–118.
- Reifner, U., Clerc-Renaud, S., Pérez-Carrillo, E. F., Tiffe, A., and Knobloch, M. (2009). *Study on equity release schemes in the EU, part III: Annexes*. Hamburg: Institut für Finanzdienstleistungen.

- Sacks, B. H., and Sacks, S. R. (2012). Reversing the conventional wisdom: Using home equity to supplement retirement income. *Journal of Financial Planning*, 25(2), 43–52.
- Statistics Canada. (2014, September 7). Population projections: Canada, the provinces and territories, 2013 to 2063.
- Sass, S. A. (2017). Is home equity an underutilized retirement asset. *Issue in Brief*, (17-6).
- Scobie, G., Le, T., and Gibson, J. (2007). *Housing in the household portfolio and implications for retirement saving: Some initial finding from SOFIE* (No. 07/04). Working Paper, New Zealand Treasury.
- Searle, B. A., and McCollum, D. (2014). Property-based welfare and the search for generational equality. *International Journal of Housing Policy*, 14(4), 325–343.
- Sheiner, L., and Weil, D. N. (1992). *The housing wealth of the aged*. Working Paper #4115, National Bureau of Economic Research.
- Simón-Moreno, H. (2019). The regulation of reverse mortgages as a source of income in retirement: Policy options and legal drivers. *Journal of Housing and the Built Environment*, 34(4), 1005–1022.
- Sinai, T., and Souleles, N. S. (2007). *Net worth and housing equity in retirement*. Working Paper #13693, National Bureau of Economic Research.
- Smith, K., Soto, M., and Penner, R. G. (2009). How seniors change their asset holdings during retirement. The Retirement Policy Program: Discussion Paper, 09-06.
- Terry, R., and Gibson, R. (2006). *Obstacles to equity release*. York: Joseph Rowntree Foundation.
- Toussaint, J., and Elsinga, M. (2012). Housing as income in old age. *International Journal of Housing Policy*, 12(1), 13–26.
- Venti, S. F., & Wise, D. A. (1990). But they don't want to reduce housing equity. In *Issues in the Economics of Aging* (pp. 13-32). University of Chicago Press, 1990.
- Venti, S. F., & Wise, D. A. (2004). Aging and Housing Equity: Another Look. In *Perspectives on the Economics of Aging*, ed. David A. Wise, 127–180. University of Chicago Press.
- Yang, F. (2009). Consumption over the life cycle: How different is housing? *Review of Economic Dynamics*, 12(3), 423-443.
- Yao, R., and Zhang, H. H. (2005). Optimal consumption and portfolio choices with risky housing and borrowing constraints. *Review of Financial Studies*, 18(1), 197–239.



www.canadianfoundationforfinancialplanning.ca

902-375 University Ave. Toronto, ON M5G 2J5 • 416-593-8587 • Toll Free: 1-800-305-9886