

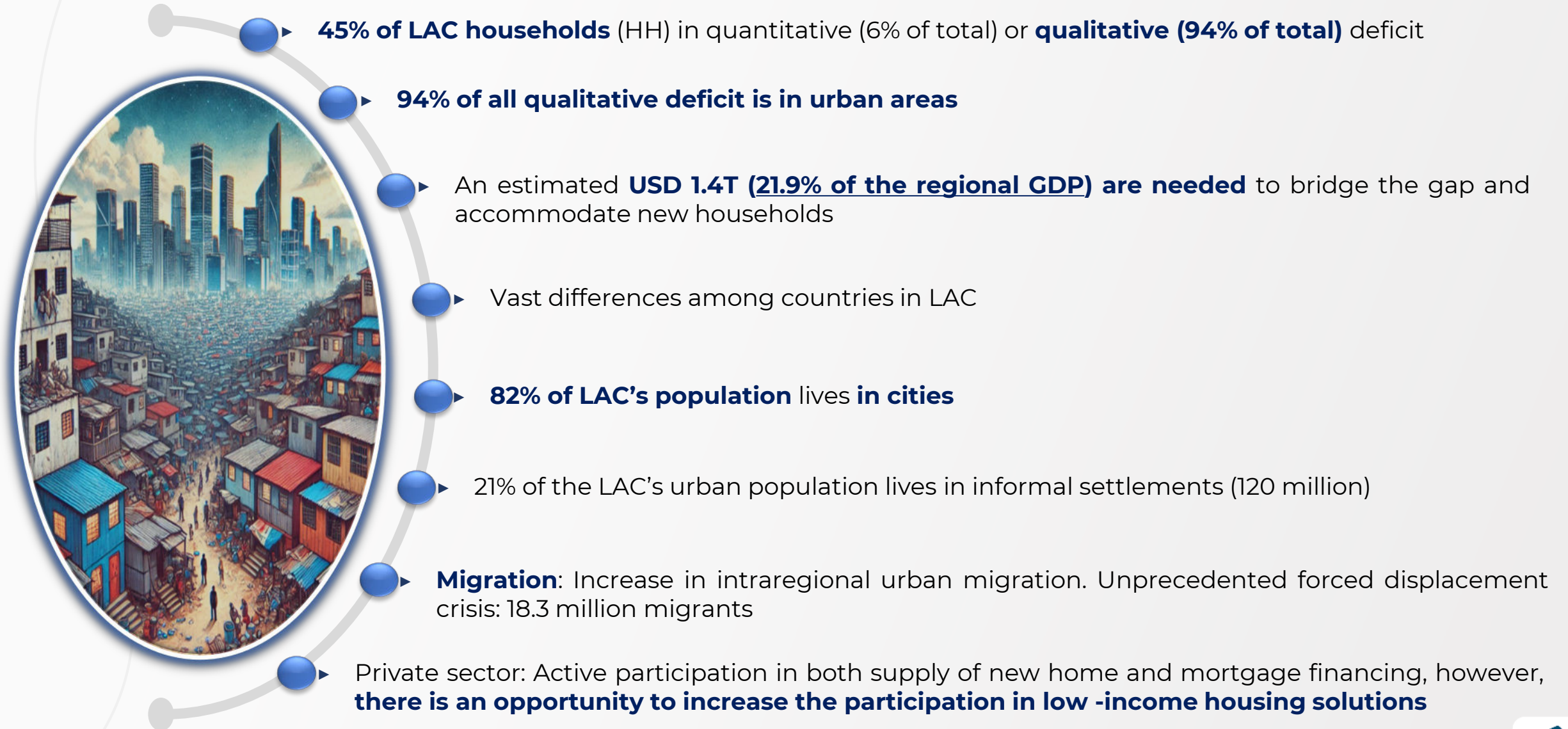
“The potential role of home equity in improving the financial security of the aging populations in LAC”

PhD. María Paloma Silva de Anzorena
IDB, Lead Specialist, Climate Change and
Sustainable Development Sector - Housing
and Urban Development Division (CSD/HUD)





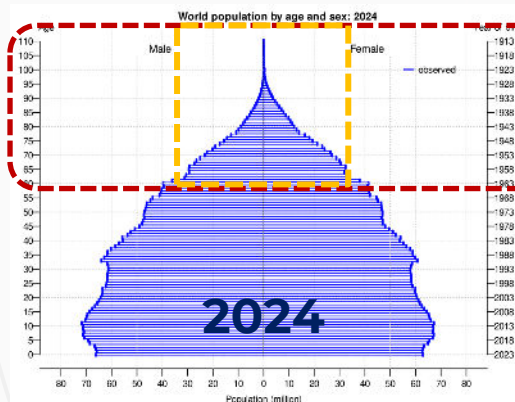
OVERVIEW: HOUSING DEFICIT IN LATIN AMERICA AND THE CARIBBEAN (LAC)



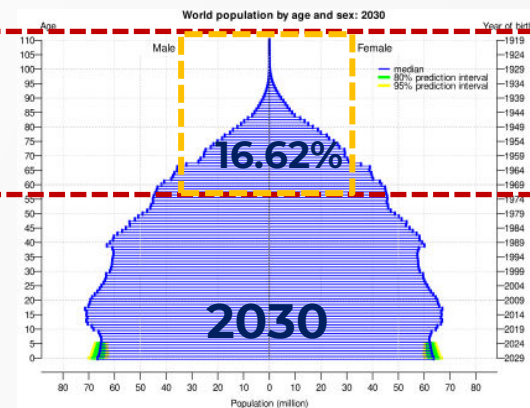


POPULATION DEMOGRAPHICS

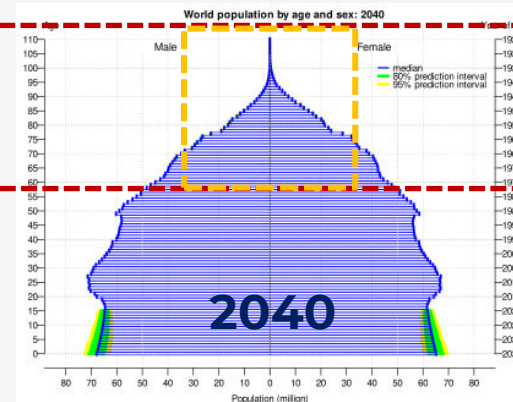
- ▶ **Changing Demographics:** (i) decrease in fertility rates, greater life expectancy, later youth emancipation; (ii) smaller families, but poorer HH are 1.7 persons larger; (iii) great variations within LAC
- ▶ **In 2023, there were 91.53 million people aged 60+, or 13.89% of the regional population.** By **2030**, this group is expected to reach 114.32 million, or **16.62% of the total (2050 = 25.02%, 2070 = 32.70% of the regional population)**, (UN 2024)



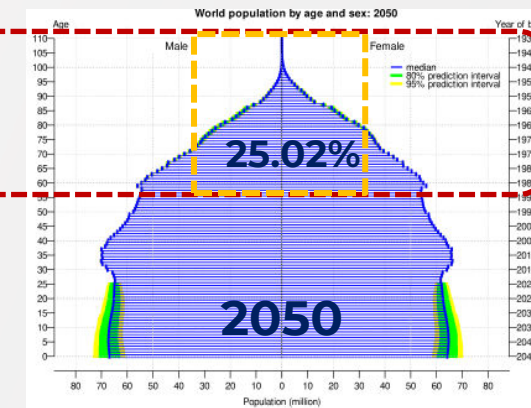
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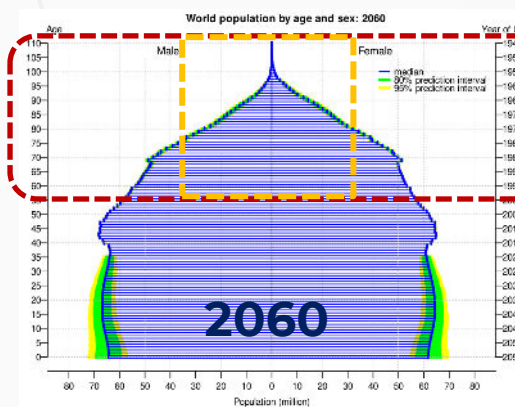
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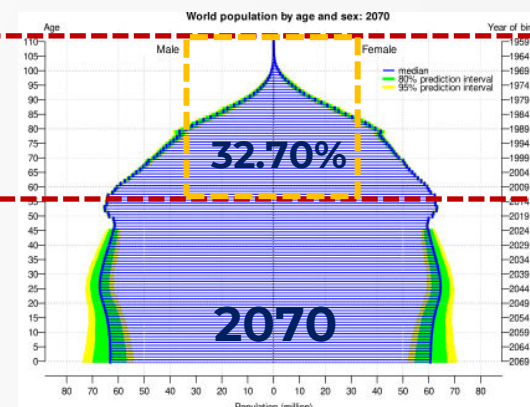
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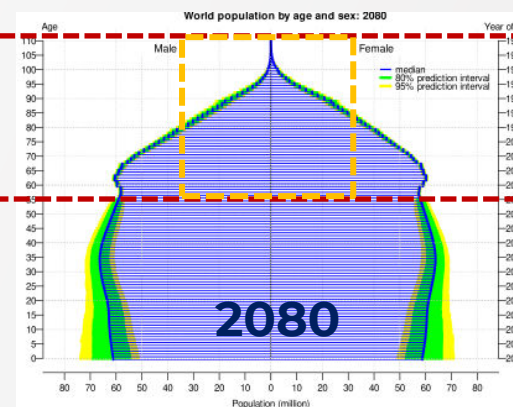
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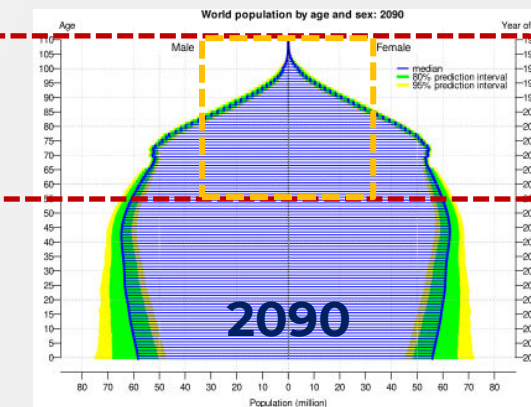
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HIGH VULNERABILITY OF OLDER ADULTS - AFFECTING THEIR QUALITY OF LIFE AND RESIDENTIAL SECURITY

INFORMAL LAND TENURE

- In some regions, many older adults live in informal settlements, preventing them from obtaining land titles and accessing housing programs

LOW INCOME

- Limited pensions or savings, making it difficult to buy or rent adequate housing
- Income is spent on food, healthcare, and other necessities
- Many need in-home supports, but these can be expensive, difficult to secure

SOCIAL ISOLATION

- A lack of housing near services or support networks can heighten the risk of isolation

LACK OF ACCESSIBLE HOUSING SUPPLY

- There is a lack of affordable, accessible housing for older adults, particularly in urban areas



LIMITED ACCESS TO CREDIT

- Financial institutions often limit mortgage loans for older people due to their life expectancy and repayment capacity

MAINTENANCE COSTS

- Housing repairs and maintenance can be costly, especially in older or poorly adapted homes

INADEQUATE HOUSING

- Many homes are not suited to the accessibility and safety needs of older adults
- Housing shapes exposure to climate-related events, to which older adults are frequently more vulnerable



PENSION FUNDS IN LAC FOLLOWS A THREE-PILLAR MODEL

NON-CONTRIBUTORY

- Government-funded pensions for those who haven't contributed enough, aimed at reducing poverty

01



02



CONTRIBUTORY:

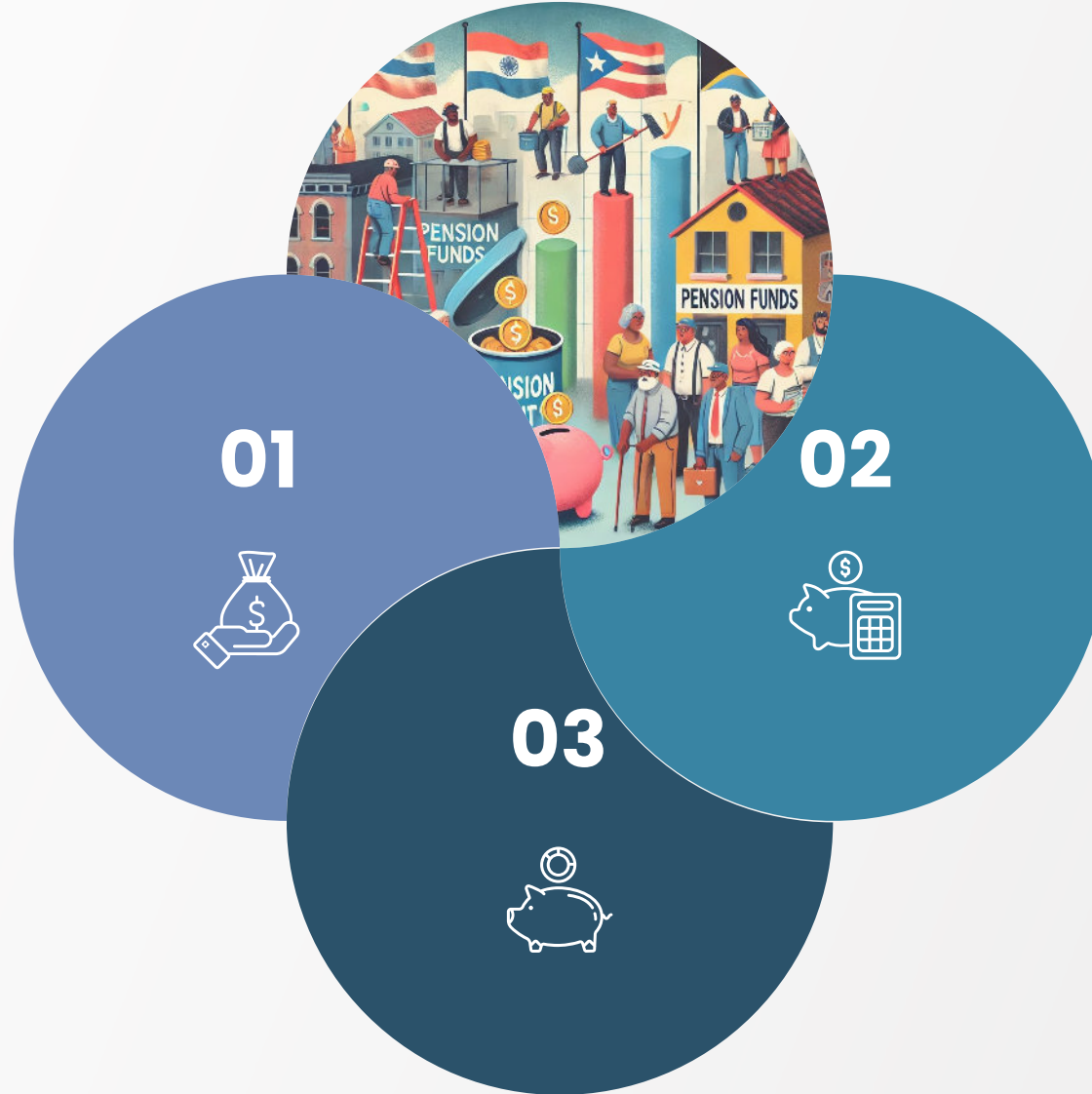
- Workers and employers make mandatory contributions to a pension fund for retirement

03



PRIVATE/VOLUNTARY

- Workers can make extra contributions to private funds to boost retirement income





PENSION FUNDS IN LAC



COVERAGE

- Limited coverage:** In 2022 (CEPAL), only 56% of retirees in LAC received a pension, with significant variation across countries. Brazil and Argentina exceed 80% coverage, while Mexico and Peru are under 30%.
- Labor informality:** High informality limits regular pension contributions, with over 50% of workers in some countries outside the formal system.
- Insufficient amounts:** Contributory pensions often fall below 60% of the average salary, and non-contributory pensions are typically below the poverty line.

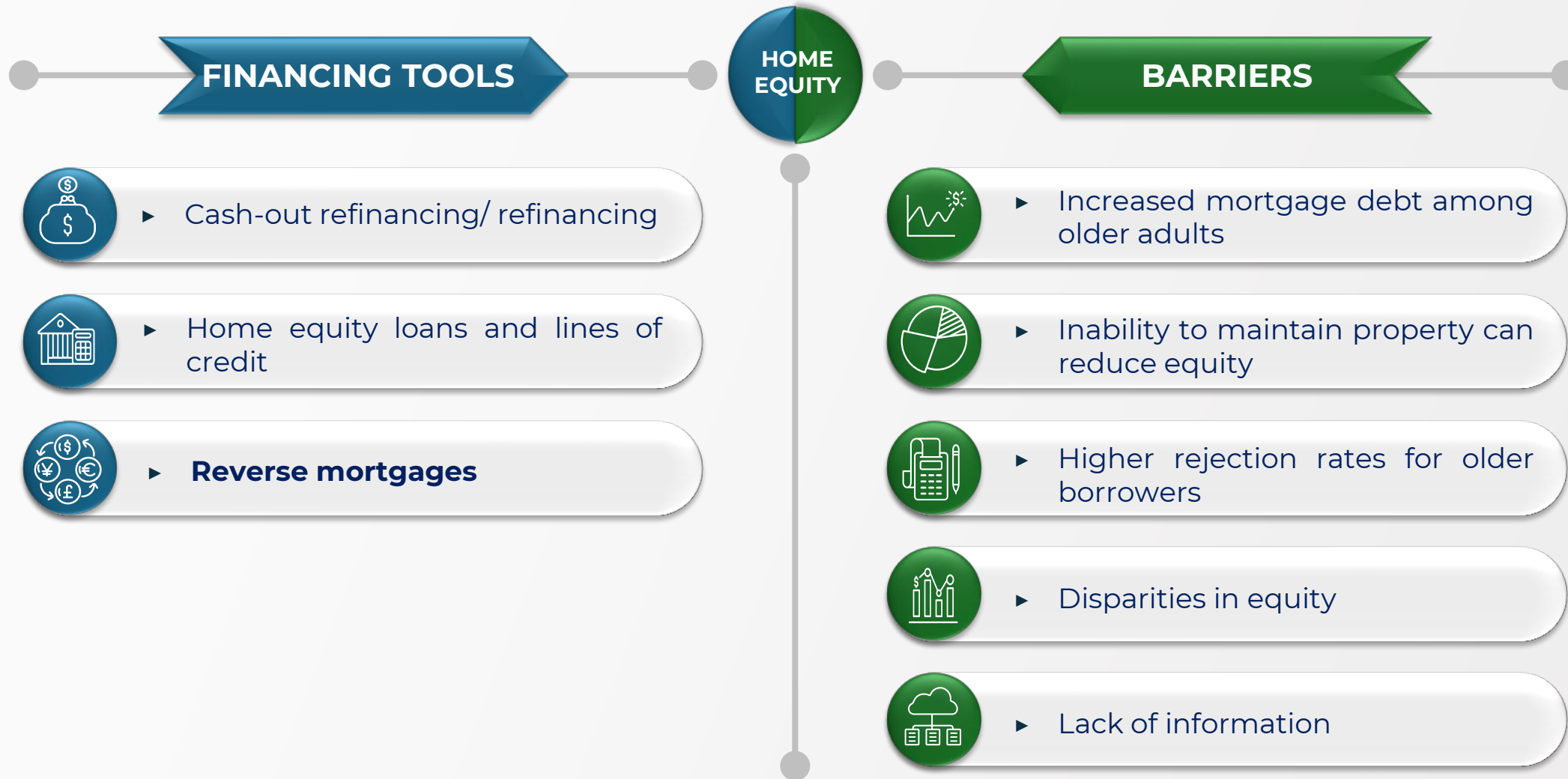


IS IT ENOUGH TO COVER THE NEEDS OF OLDER ADULTS?

- Insufficiency:** For many older adults, pensions are not enough to cover their basic needs such as food, health and housing. This is due to low coverage, labor informality and low pension amounts.
- Inequality in coverage:** There is a significant gap between formal and informal workers. Informal workers, who are the majority in many countries, do not have access to adequate contributory pensions.
- Non-contributory programs:** Although they have improved access to pensions for the most vulnerable, these programs offer low payments that do not fully cover the needs of the elderly.



HELPING OLDER ADULTS ACCESS HOME EQUITY

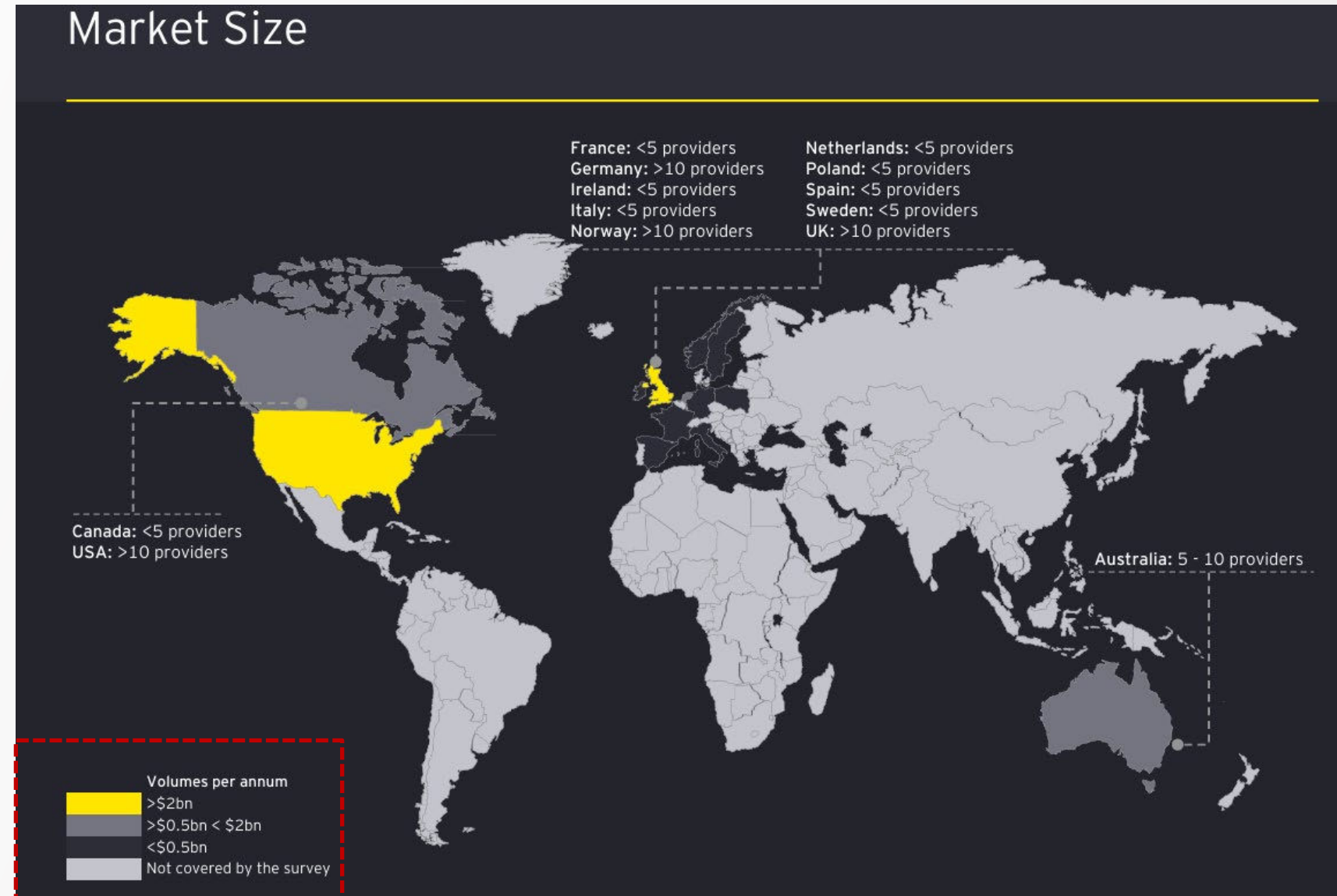




GLOBAL MARKET EQUITY RELEASE PRODUCTS

Report Analyses Global Market Potential for Equity Release Products

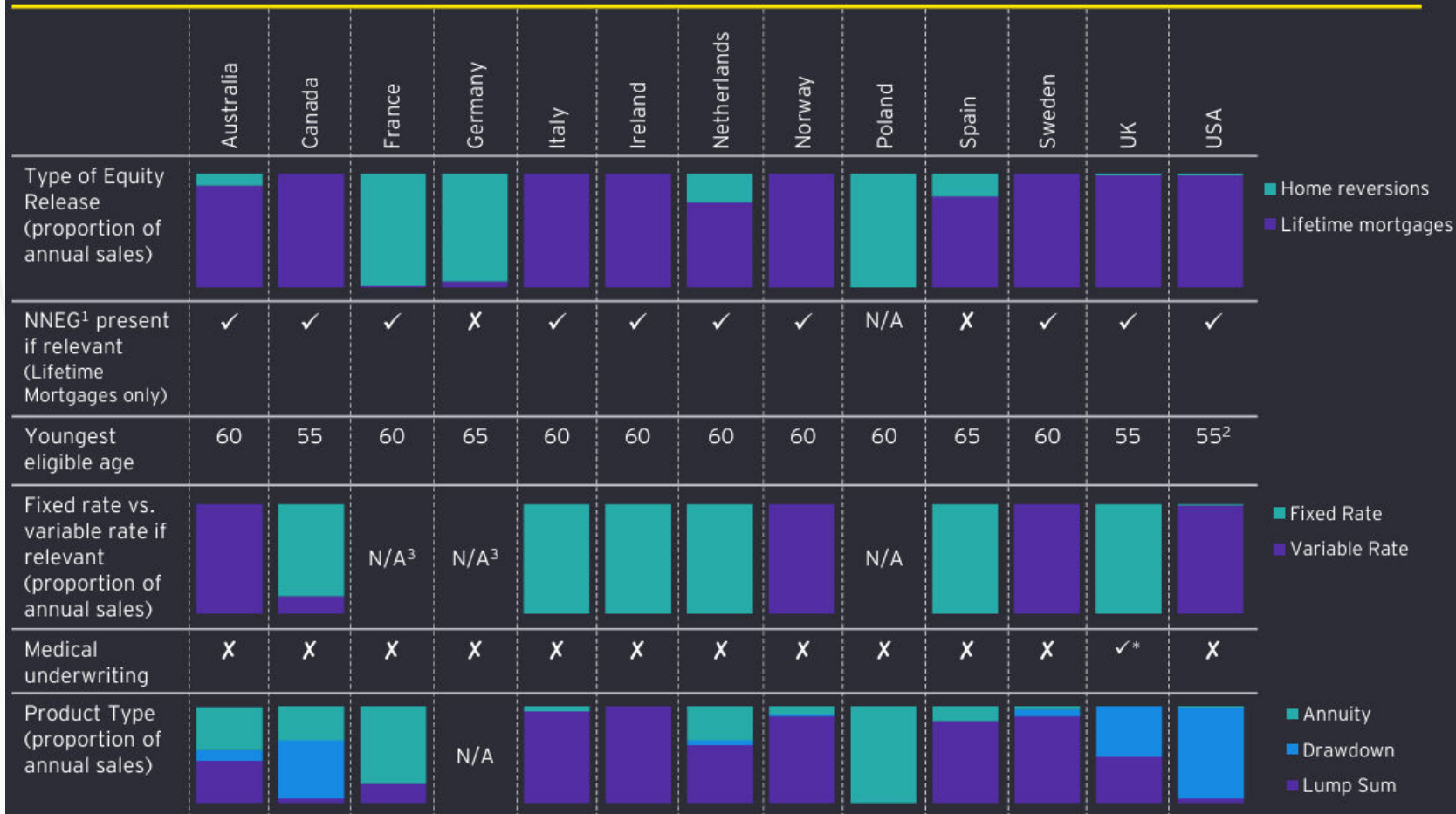
- ▶ Gathers data from market leaders across 13 countries globally
- ▶ The most common type of equity release is the lifetime mortgage, followed by home reversion schemes.
- ▶ Banks are the most common source of financing, followed by insurance companies, securitizations and debt.





GLOBAL MARKET EQUITY RELEASE PRODUCTS

Product Characteristics



- ▶ Over \$17bn of equity is currently released each year for homeowners, but this is expected to increase dramatically by 2033, when the global equity release market is expected to reach \$50bn in annual releases

*Some equity release involves medical underwriting and some do not.

¹No-negative-equity-guarantee

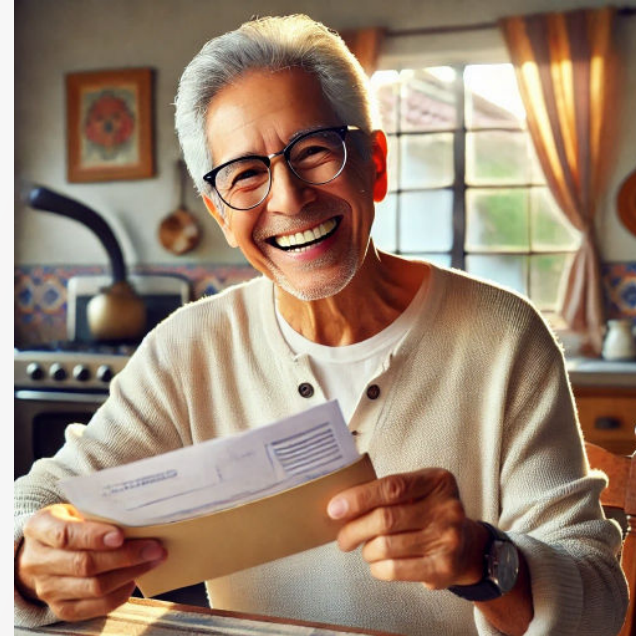
²62 years old for the government insured product



THE POTENTIAL ROLE OF HOME EQUITY IN IMPROVING THE FINANCIAL SECURITY OF THE AGING POPULATIONS IN LAC

Considering:

- ▶ In LAC, 44%, or about 40.2 million older adults are not receiving a pension
- ▶ To provide a basic monthly income of \$300 USD to these individuals, **it would require approximately \$145 billion USD annually**
- ▶ While the global equity release market could help some older homeowners, it would not fully address the financial needs of the entire non-pension population. **But it's a beginning to improve the financial security of the aging populations in LAC**





REVERSE MORTGAGE



- ▶ A reverse mortgage is a type of loan designed primarily for homeowners 55 years of age or older that allows them to convert part of their equity into cash
- ▶ Unlike a traditional mortgage, where the homeowner pays the lender, in a reverse mortgage, the lender pays the homeowner, using the value of the home as collateral



- ▶ **Eligibility Assessment:** The homeowner must meet certain requirements, such as being at least 55 years old (depend on the country) and owning the home
- ▶ **Property Appraisal:** An appraisal is performed to determine the current value of the property



- ▶ **Payment Options:** The homeowner can choose to receive the money in a lump sum, monthly payments or a line of credit



- ▶ **Homeowner Responsibilities:** Although there are no monthly payments, the homeowner is still responsible for property taxes, insurance and maintenance



- ▶ **Loan Repayment:** The loan must be repaid in full when the last borrower dies, sells the home or moves out



GLOBAL USE OF REVERSE MORTGAGE



PROS

CONS



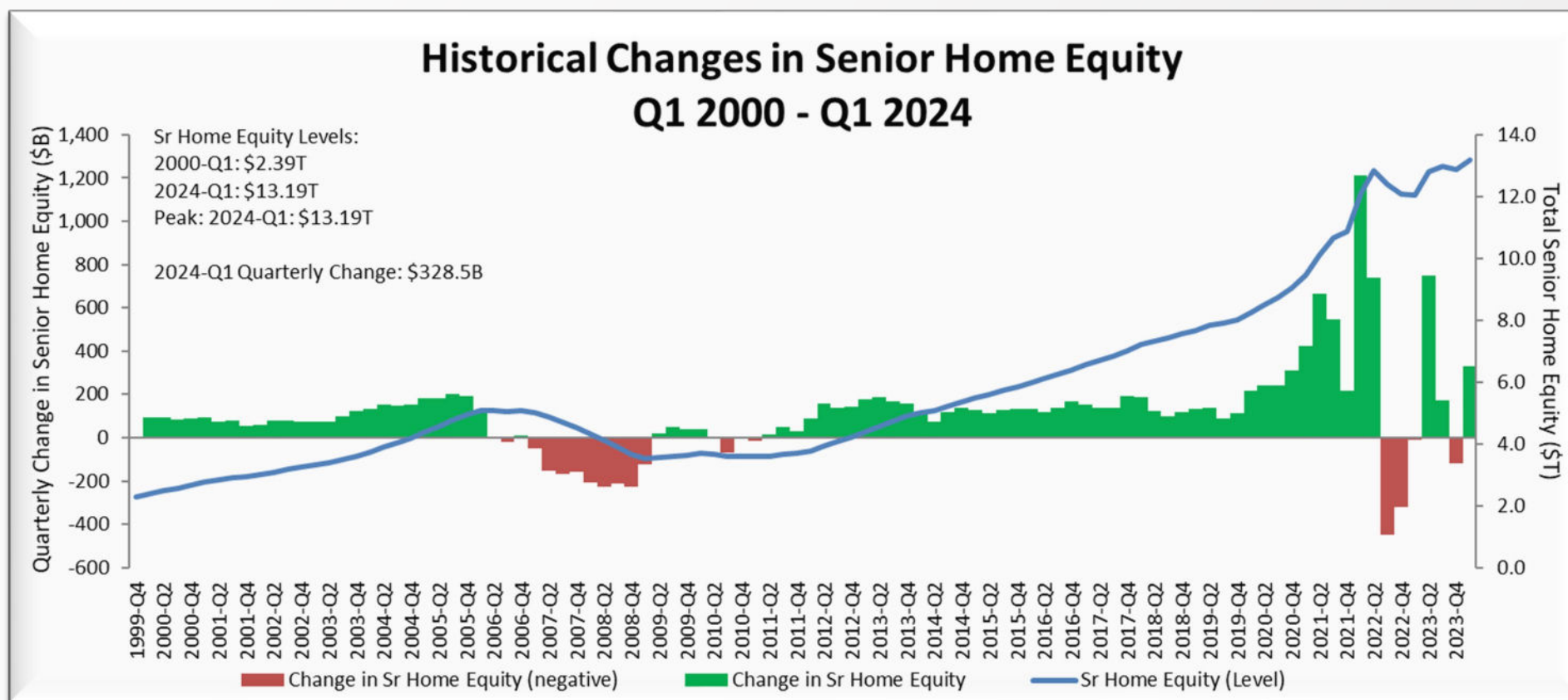
- **Access to Cash:** Allows homeowners to access funds without having to sell their home
- **No Monthly Payments:** No monthly payments are required for the life of the loan
- **Flexibility in Use:** Funds can be used for any purpose, such as medical expenses or home improvements
- **Keep Ownership:** Homeowners can continue to live in their home while receiving the financial benefits

- **Associated Costs:** Includes origination fees, insurance premiums and closing costs that can reduce the net amount received
- **Impact on Heirs:** Reduces the equity that can be left to heirs, since the loan must be repaid when the home is sold
- **Financial Responsibilities:** Homeowners must continue to pay taxes and insurance; failure to meet these obligations may result in foreclosure
- **Equity Depletion Risk:** If the homeowner lives long after receiving the funds, they may exhaust their available equity



GLOBAL USE OF REVERSE MORTGAGE: FHA – EE.UU.

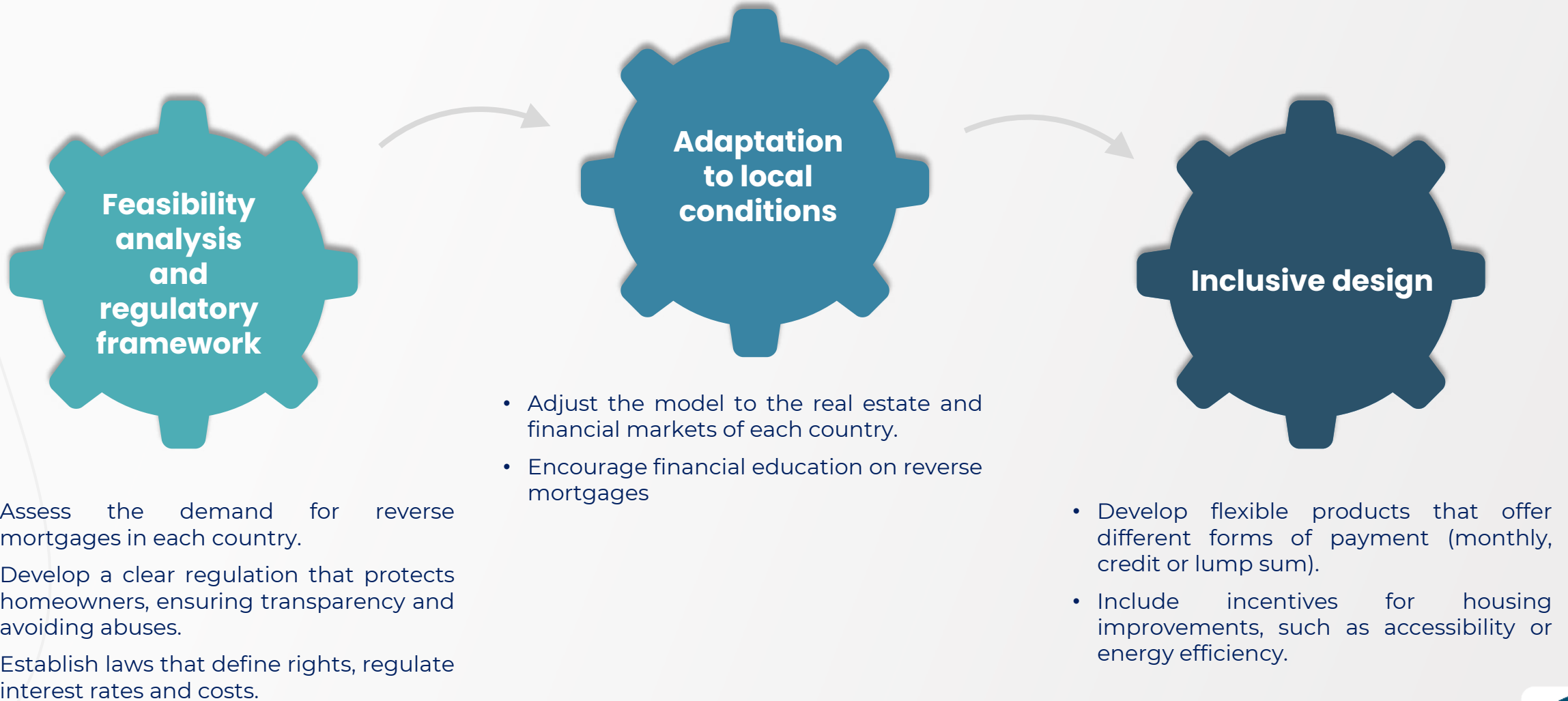
- ▶ There have been **1,333,749 FHA - insured reverse mortgages originated** since the program inception
- ▶ There are currently **503,000 FHA - insured reverse mortgages outstanding**
- ▶ Senior Homeowners in the US had **\$13.19 Trillion in home equity** as of the end of Q1 2024 (see chart below)





WHAT'S NEXT - KEY STEPS & RECOMMENDATIONS TO IMPLEMENT REVERSE MORTGAGE IN LAC

- ▶ The implementation of a reverse mortgage model in Latin America would require coordinated actions at the political, financial and social levels to adapt to the economic and social particularities of the region:





WHAT'S NEXT - KEY STEPS & RECOMMENDATIONS TO IMPLEMENT REVERSE MORTGAGE IN LAC

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