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Households' Perceptions on Old Age and Housing Equity

Combined Report WP2

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1 Introduction

1.1 Background

This report discusses the findings of the collaborative project Demographic Change and Housing Wealth ("DEMHOW"), funded by the EC within its Seventh Framework Programme. The report presents the findings of the qualitative work package which involved 240 interviews in eight different countries.

This project builds on previous research undertaken as part of the 6th framework project, Origins of Security and InSecurity (OSIS). Seven of the current eight countries were also involved in the OSIS-project. The former project focused on the extent to which housing (rented and owner occupied) were a source of security and risk to households. In this project, we focused solely on owner occupation and explored the role of housing (in particular housing equity) plays in household's safety net strategies.

This first chapter introduces the research project in more detail. First, the policy background to the project is described, as well as the key theoretical debate informing the research. The chapter then outlines the methodological approach taken in the research.

1.2 Demographic changes and their consequences in Europe

Demographic changes in many European countries are putting pressure on collective welfare provision for the elderly. Populations are ageing, which means that the proportion of younger people is diminishing compared with the proportion of people 65 and over. The young generally pay for the elderly via taxation and collective welfare policies. Consequently, when a population ages, the costs are likely to become a burden on younger generations. The expectation is that European households will increasingly have to develop private financial strategies, and build up private assets for old age.

The forces behind ageing include low or relatively low fertility rates and generally growing life expectancy. A third factor of demographic change, apparent only in a few European countries, is the high level of migration. As a consequence of declining reproduction rates in Europe – being around 1.7-1.8 for countries with better fertility indicators, and between 1.2 and 1.3 for countries on the lower end in Europe – governments of the European Union will face very different problems and social tensions in 2050 than they do today. Greying societies will transform the political character of their respective countries as the majority of voters will be of an age in which one is at least partially dependent on the functioning of redistributive systems. In regard to economics, however, aging societies also mean slower economic growth, lower rate of productivity, and labour shortages. Furthermore, demographic change will have a profound effect on how welfare, housing and economic policies are constructed. The policy implications of these demographic trends are on the agenda in all EU countries, and there is widespread agreement that the effects of low fertility, longer life expectancy and mass migration will put a pressure on public spending for health care, pensions, and social services. According to estimates, by 2050 the extra cost caused by ageing will amount to between 4 and 8 per cent of GDP in European countries and will increase the taxes by 10 to 20 per cent.

However, Europe is not a single demographic unit, and countries can be grouped according to their demographic trends. Also, the eight countries in the DEMHOW project can be placed between two extremes (See Table 1.1):

- Belgium, UK and the Netherlands belong to the richer countries, which have a relatively high fertility rate (1.6-1.9, but still much below the replacement level), and high immigration (they have 9-11% share of foreign born population).
- Hungary, Slovenia, and Portugal have a GDP below the EU average, and have lower fertility rate (1.3-1.5), and quite low immigration.

- Germany and Finland are “outliers”, as Germany has high GDP and high immigration rate, but very low fertility rate, while Finland has a low immigration rate, but in other aspects it is close to the first group of the countries. Recently, in Finland migration has increased, and it is projected to counterbalance the natural decrease of the population.

Table 1.1 Demographic indicators for 8 countries in the research

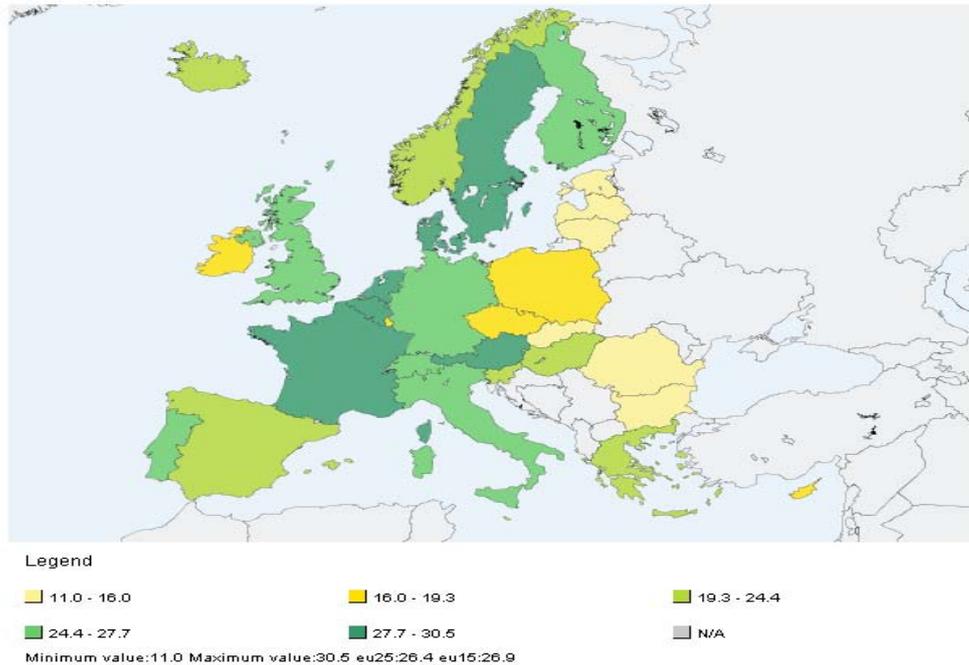
	GDP per capita in PPS 2008	TFR 2006	Life expectancy 2004	Healthy life expectancy 65+ - male	Healthy life expectancy 65+ - female	Foreign-born as share of total population, 2005 (in %)
UK	117.5	1.84	76.8	10.3	11.1	9.3
Netherlands	134.6	1.7	76.9	10.4	10.9	10.6
Belgium	114.6	1.65	76	9.1	9.5	11.4
Finland	115	1.84	75.4	6.2	6.5	3.2
Germany	115.8	1.32	76.5	6.5	5.9	12.9
Portugal	75.3	1.35	75	6.2	5.1	6.7
Slovenia	89.9	1.31	73.5	7.4	8.5	2.2
Hungary	62.9	1.34	68.7	5	5	3.2

Source: OECD data set

Parallel to demographic change, the economic forces of globalization also impose new rules upon the economic and tax regimes of the European countries. As a result, European welfare systems have been forced to adapt to the circumstances of tough economic competition. Nevertheless, literature is widely divided on how much room is left for manoeuvring in the area of globalization for national governments. Regardless of the eventual effects of economic competition and globalisation on individual states, the combination of demographic and global economic change has created a situation of budgetary constraints and extreme pressure in many member countries of the European Union. This pressure has forced these various members of the EU to adapt their welfare systems to the new challenges in a variety of ways. The result of this adaptation can be manifold, as the reorganisation of the welfare policies have depended on many different factors. In addition to many historical factors, this process was affected by institutional structures and the already existing welfare policies. Furthermore, the political choices of country leaders, particularly their decisions involving policy transfers, changed how the new welfare structure emerged. Not only do institutional changes follow their own path, the level of welfare is also very different as for example shown in figure 1.1. There is a relatively high level of social protection expenditure in the Netherlands and Belgium, a median level in Germany, Finland, Portugal and UK, a lower level in Slovenia and finally a low level in Hungary.

The demographic changes put pressure on pension systems and governments developed policies to keep people in the labour market (Hegeudus et al, 2010). Figure 1.2 provides an insight into the dynamics of pension behaviour in all eight countries. Hungary, Slovenia and Belgium show significantly lower activity rates for people aged 55 to 64 years than the other five countries. In most countries, except Portugal, this activity rate has risen considerably in the last decade. In Netherlands, Finland and Germany there has been a shift in the age group 55-64 from a majority in early retirement to a majority still in the labour market.

Figure 1.1 Total expenditure on social protection as % of GDP, current prices, 2007



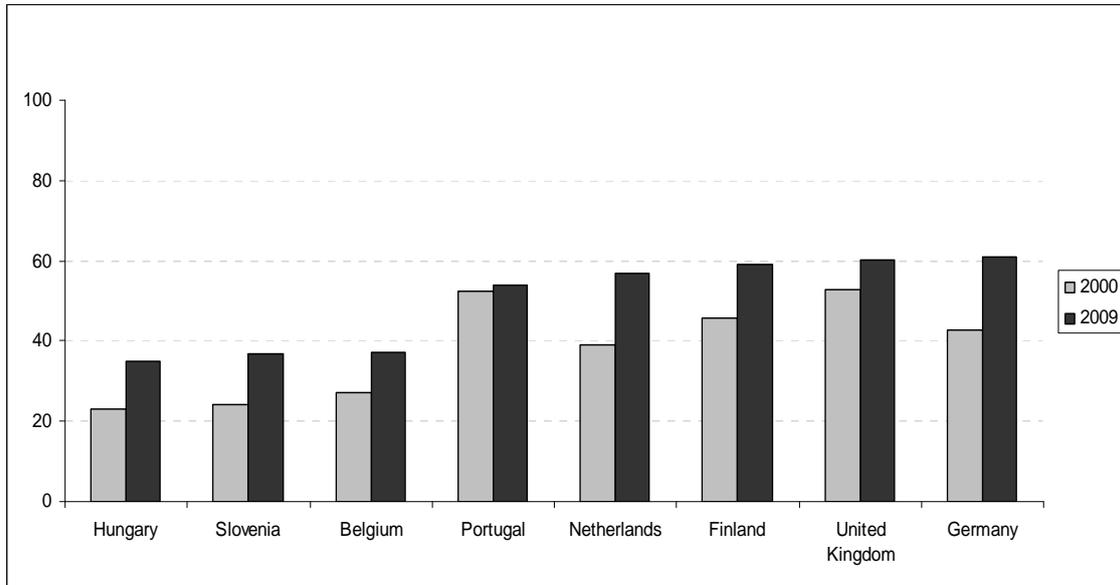
Expenditure on social protection contain: social benefits, which consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a defined set of risks or needs; administration costs, which represent the costs charged to the scheme for its management and administration; other expenditure, which consists of miscellaneous expenditure by social protection schemes (payment of property income and other).” Source of Data: EUROSTAT, generated on the webpage of EUROSTAT, link to the map:

http://epp.eurostat.ec.europa.eu/tqm/web/svg/Eurostat_Map_tps00098_13161612697_download_tmp_embed.png
(In: Hegedus et al, 2010)”

Despite the differences in demographic change and in welfare and pension systems, one common factor has been a general shift to imposing a greater financial burden on individual households, and raising the level of risk normally involved in their lives. The rearrangement of the welfare state meant that some risks, formerly collectively managed, would now more likely be managed by households/families alone. This means that households/families would – ideally – save more in the future in order to face the difficulties alone. It is precisely here that housing equity comes into question. Regarded often as the second greatest asset in a household’s wealth – the first being the total value of pension wealth partially accumulated or partially entitled already – the attainment of home-ownership is often part of an elaborate household strategy in the framework of intergenerational transfers (Hegedus et al., 2010).

About 65% of Europeans have built up private assets by becoming homeowners. Since the mortgage market became more easily accessible for households, increasing numbers of people could afford to buy property. As a result, more households took out a mortgage, and gradually built up housing equity by paying off this loan, frequently becoming outright owners in old age. Moreover, house prices in many countries went up. Consequently, housing wealth has, for many households, become their most important source of wealth. Housing assets, however, differ from other assets: this asset is also a home. Although not a liquid asset, it generates income in different ways. Firstly, it provides income in kind: the household consumes the services delivered by the asset. People in old age have often paid off their mortgage and can therefore live ‘rent free’ Furthermore, owner-occupiers can free up housing equity by downsizing or moving to rental accommodation.

Figure 1.2 Activity rates of people aged 55 to 64 years



Source: Eurostat, 2010

Finally, mortgage markets have evolved radically in recent years and a number of mortgage equity withdrawal products are now available.

These products enable households to borrow funds using their owner-occupied property as collateral. The mortgage equity release products potentially convert housing assets into liquid assets, and enable households to cash in their housing equity whilst still living in their home. In other words, mortgage equity release products are a means to turn home equity into income.

1.3 The theoretical debates on welfare, pensions and homeownership

The trade off debate

Academic debate has for decades centred on the trade-off between homeownership and welfare. In 1998 Castles published an article on what he referred to as “the really big trade-off” between homeownership and public welfare in the new world. As government expenditure on welfare declines, homeownership increases. Or is it the reverse? Does government expenditure decline because less pension funding is needed? Two propositions about the causal mechanisms underpinning the housing-pensions trade-off seem to have emerged: the first, that housing expenditure acts as a constraint, and the second that housing assets reduce needs. According to Castles and Ferrera (1996), the more tax one pays for a high pension in old age, the less one can afford when purchasing housing and *vice versa*. They state that the size of the owner-occupied housing sector impacts on the form of the welfare state. More homeownership and therefore more housing equity reduces the need for high collective pensions.

Kemeny stresses that housing expenditure constrains people’s ability to build up a pension when they are younger. He states that a house purchase and pension contributions are the biggest expenditure items during the life cycle. More generally, “the argument is not that households necessarily believe that the welfare state is undesirable, or less necessary. The effect is more indirect, in that it facilitates political decision making that involves reducing state welfare commitments without encountering strong public opposition” (Kemeny 2001). Various studies show a statistical relationship between the level of pensions and the level of homeownership (Castles, 1998). But there is virtually no empirical comparative evidence on the causality of this relationship.

This issue is about how people aim to keep a proper balance between different welfare domains, bearing in mind the possibility of making numerous trade-offs between them. However, on the other hand, in the words of Esping-Andersen (2009: 79), “welfare comes

inevitably from the combination of family, market and government inputs... these three welfare pillars have reciprocal effects on each other". Hence the issue is also about the relationship to these three pillars as owned housing can also function as a stake in any of these pillars, with housing equity able to be used to strengthen someone's position in these pillars. Owned housing can therefore be seen as a means to balance the trade-offs between different domains and services and to prioritise between welfare pillars – the public sector, private services and the family. In Southern European familialism there is an identified pattern that housing is used to strengthen the extended family relations and the services it provides. Observed from an individual's point of view, security in old age can thus be seen as a compilation of numerous choices and elements constructed from numerous pieces of welfare provision that are brought together and which together constitute what is perceived as old-age security.

Finally, there is another important mechanism, the role of which cannot be neglected. The informal economy (tax evasion, corruption, etc.) has an effect on the income and wealth distributions, too. According to a recent research report (Schneider and Buehn, 2009) in new member states the size of the informal economy can reach up to 25 % of the GDP (Hungary 23,4%, Slovenia 26,7%). Among countries chosen for this study they estimate the lowest level of informal economy is in the UK (8,1%) and in the Netherlands (10,6 %), while in the other countries the informal economy had 14-20 % share (Hegedus et al, 2010).

Life-Cycle-Model debate

The life cycle model (LCM) can be thought of as a strategy for the temporal redistribution of income, the basic premise being that, at any one time, individuals set their present level of consumption in relation to their present level of wealth and their expected future income (Deaton 1992). Life-cycle theories are rather successful in explaining household saving and dissaving behaviour. The basic idea is that forward-looking agents distribute their income over their life course, with savings providing financial security for hard times ahead and retirement. This implies that in a functioning capital market young people borrow, as their incomes are usually below their average expected lifetime income, the middle-aged save, as their current income is higher than average, while finally, the elderly use their savings because their incomes are generally relatively low. Thus, life-cycle theories expect an inverted U-shaped pattern to apply to savings across age categories and over household life courses (Browning & Crossley 2001).

Housing as a very important asset for many households could be consumed at old age according the life cycle theories. In the past, the obvious ways to cash housing wealth was by moving to a cheaper dwelling or a rental dwelling. Housing wealth was thus illiquid and consequently people would not use it as much as they could. More recently, equity release products are more and more available. With these products, households can borrow against their owner-occupied dwellings as collateral. It has been suggested, that as a result households would more easily consume their housing wealth (Doling et al 2009; London_Economics 2005; Rouwendal 2009). However, evidence so far (Horsewood and Neuteboom, 2006 others?) shows that housing wealth is treated different from other types of wealth. There is little knowledge on why households treat housing equity differently and how they use it in their financial strategies.

We intend to contribute to this sociological trade-off discussion as well as to the economic Life-Cycle debate by clarifying how households think and behave, and examining the extent to which older-age policies play a role. Do households see housing equity as part of their financial strategies? Do they intend to consume housing equity in old age, and how does this differ among the eight countries studied?

1.4 Methodological considerations

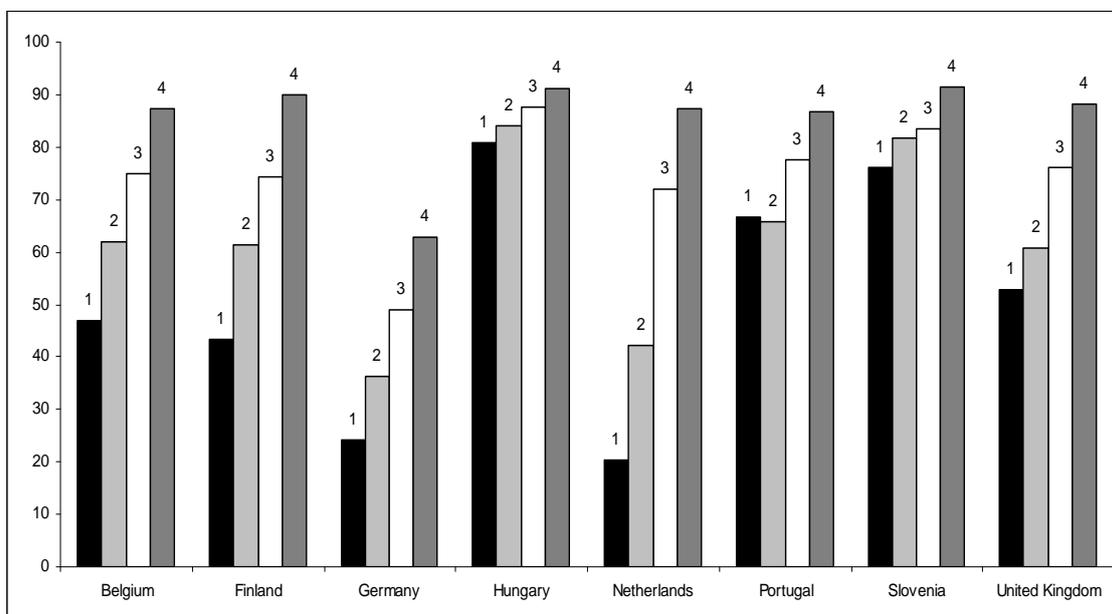
Different approaches in comparative research

The aim of the qualitative work package of DEMHOW was to unravel the roots of behaviour with respect to housing and planning for older age, and to compare the findings for the eight countries. Different approaches can be taken when comparing countries. The first is the universalistic approach which is grounded in the assumption that universal characteristics can be identified in social phenomena, independent of a specific context (Hantrais, 2003). This universalistic approach has served as a basic tenet in many econometric studies aimed at modelling behaviour. Such models look for statistical relationships as presented by Castles, but do not support conclusions on causal relationships. Since the relation found by Castles was a statistical relation and not a causal one, there is the debate on the causality of this relation.

The converse of the universalistic approach is the cultural approach, developed by the Chicago School, which places a great emphasis on social contexts, distinctiveness and uniqueness of cases. Culturalism has been criticised for focussing so exclusively on cultural diversity that meaningful comparisons were greatly hampered or rendered impossible (Hantrais, 1999).

Here, we have opted for what Hantrais (1999) refers to as a middle range approach. This project analyses perceptions and behaviour and assumes that context matters. It explores the extent to which a hypothesis raised in one context US or UK context can be confirmed or rejected in the UK and a number of continental European countries. We seek evidence by reporting on people's stories and exploring how housing equity and income in old age fit together by qualitative interviews. In other words we aim to conclude on the 'how' and 'why' questions in eight different countries and therewith contribute to conclusions on causality. How do people consider their context, do they rely on collective arrangements and formal and informal institutions? In our analysis, the institutional context is considered an important explanatory factor in the cross country analysis.

Figure 1.3 Percentage of owner-occupiers by income quartiles



Source: EU-SILC, 2006

Country Selection

Eight European countries were selected for the DEMHOW project. Since we assume that context matters and because welfare regimes for care and income in old age also matter, we selected countries whose welfare regimes and housing markets are dissimilar. We applied Esping-

Andersen's (1990) typology to select a liberal welfare regime (UK), two corporatist welfare regimes (Germany and Belgium), a social democratic welfare regime (Finland) and a mix of a social democratic and corporatist welfare regime (the Netherlands). We also included a Latin rim regime (Portugal) and two former Eastern European countries (Slovenia and Hungary). Since the welfare regimes and pension systems in these countries differ, as do their cultures, these differences needed to be considered when developing the research design.

Another (?) important difference to keep in mind when studying housing equity and interviewing home owners, is the different home ownership rates in the eight countries under study. Figure 1.3 shows the differences in the housing markets. We see the two super home owning countries Hungary and Slovenia where the large majority in both lower and higher income groups is a home owner. Due to the transition in the early 1990s public housing was transformed into private ownership. Also in Portugal most people are homeowners. We see a different picture for the social democratic and corporatist countries. In these countries, the highest income households are home owners and the majority of lower income households are tenants. The UK is in the middle with a home ownership rate of 50% for lower incomes.

Defining the scope of the interviews

The qualitative interviews are meant to understand how households perceive their housing equity and to establish the extent to which they see housing equity as a resource when planning for old age. Previous research has shown that mortgage equity withdrawal is not often an obvious option for households to consider, and that other strategies are applied (Elsinga et al. 2007; Turner & Yang 2006). Saving for retirement is often done through occupational pension funds, annuities or savings deposits. But the (extended) family can also have an important role in old age, in both a practical and financial sense. In addition to all these strategies, having low housing expenses in old age might actually be sufficient for retirees to achieve wellbeing in their old age. This study further explores the variety of households' strategies with respect to old age.

Table 1.2 Chapter topics and guiding questions

2 Household strategies	What are the sources of income and how secure are they? Why buy a house? How important is the family? What is the role of inheritance? Do the interviewees plan, how, or why not? What is the role of savings, assets, property and housing equity? To what extent do they take different risks into account? What is the effect of the crisis/recession?
3 Pension strategy	When do people retire/want to retire and why? What sources of income do they rely on? Who should be responsible for income in old age? What are their strategies for income in old age? What is the effect of the crisis/recession?
4 Care in old age	What are households' expectations about care in old age for themselves? Who should be responsible for care in old age? To what extent should people rely on collective arrangements?
5 Role of housing equity	Is buying a house part of a long-term strategy for old age? In what way is housing equity considered important for old age? Is mortgage equity withdrawal an option or not? Why do households not consume housing assets?

Moreover, it emerged from the literature (Allen et al., 2004; Kemeny, 2009) and in discussions among the eight country teams that the family, and in particular the way parents help their children to buy a house, and the importance of leaving a legacy to the children, all play an important role in people's perceptions and behaviour regarding housing equity (Kemeny, 2009;

Mandic, 2010). We therefore included the family and legacy as a substantial part of the semi-structured interview.

When talking about old age, income and health, the institutional context probably plays an important role in people's perceptions and behaviour. After all, public pensions in some countries are low, whereas in other countries public pension levels are quite substantial. Care in old age is also very differently organised in the eight countries studied. Finally, the housing market is also very different in these countries. Building housing equity through home ownership is self-evident in countries such as Hungary, Slovenia and Portugal, whereas in Germany just 42% of the population are home owners. When exploring the role housing equity plays in old age, we discovered that a wide range of different topics needed to be taken into account. These differences are described in the joint report on institutional contexts (Hegedus et al., 2010). Table 1.2 gives an overview of the research questions we addressed.

Table 1.3 The target quotas

	With children	Without children
25-35 years old	6	4
45-55 years old	6	4
65 and over	6	4

Interviewee selection

The main hypothesis is that households will attach greater value to private assets, and in particular housing equity, than collective forms of provision for their retirement plans. We expect younger cohorts to do this more than their older counterparts since younger people face the issue of ageing and the pressure on collective pensions and are therefore expected to rely less on collective arrangements. Moreover, we expect households without children to use their housing equity more than households with children. After all, the literature shows that leaving a legacy plays a role in considerations on consuming housing equity or not (Rowlingson, 2006). We therefore defined the following target quota in Table 1.3. In all eight countries at least 30 households interviews were undertaken with home owners.

The interviewees were selected from an area where economic growth was neither far below nor far above the average in the country. The 240 interviews were conducted in the summer of 2009.

The research instruments

The research teams of all eight countries needed to interpret information across historical, cultural and socio-political contexts. Developing a framework that was sufficiently flexible to do justice to the cultural differences and robust enough to facilitate a comparison of behaviour in the eight countries turned out to be a fairly complex task. The development of the framework was led by the joint Dutch/British team.

The research teams chose to utilise semi-structured interviews with the aim of drawing up a topic list to suit all eight countries. The structure is necessary to be able to compare the interview findings over countries. But the structure also needs to accommodate the diversity of situations in the different countries, where a question that might seem logical in one country could be considered odd in another. Semi structured interviews therefore was the most logic research instrument to chose. To facilitate comparison, we were obliged to include some questions that some people might find strange and trusted that these questions would not make the researchers in some countries feel too uncomfortable. In particular, the role of the family and the role of and trust in financial institutions varied fairly substantially across the eight countries under study.

Direct questions are the most logical way to elicit answers about how interviewees view the various aspects under consideration. For example, does leaving a legacy play an important role in people's strategies? However, people are influenced by their norms and tend to give socially desirable answers. It appeared that people tend to say they attach little value to leaving a legacy. This could lead to the assumption that people may, indeed, consider consuming their housing equity. However, when asked if they would consider an equity withdrawal they would start talking about how important it is to leave something for the children. It therefore proved efficacious to approach the topic from different angles, such as the family, financial strategy, care and pensions (see Table 1.2).

As Hantrais concludes "cross national comparisons afford a powerful test of objectivity not only because researchers may have a blinkered view of their own society and be convinced that theirs is the best way, but also because they may seek to analyse practices in different cultural setting through their own (inappropriate) conceptual lens. Inevitably, researchers have their own culturally and linguistically determined assumptions and their own mindset. In a paper written by the German team, it was explained that for example "the term 'landlord' implies a strong hegemonic position drawn from a bygone estate/feudal system. By contrast the German term "Vermieter" relates more to the technical process taking place, a person providing a room for tenancy. [...] This points towards more commonality and less hierarchical social relation than the English wording. And in fact, in Germany the legal position of a "Mieter" (tenant) is in some respects even stronger than that of the "Vermieter" (landlord)" (Helbrecht and Geilenkeuser, 2010). This makes clear that it is impossible to translate without losing meaning. This semantic difference also helps to explain why renting in Germany is more often considered an acceptable alternative to home ownership and thus why the home ownership sector in Germany is lower than in the UK (see figure 1.3). As Hantrais (2009) describes, the British have the advantage of possessing an international language as their mother tongue. Also in the DEMHOW-project researchers from other countries agreed to cope with a language that was not theirs and with the problem that some words and expression can not literally be translated as the example of landlord versus "Vermieter" showed.

Institutional and cultural contexts are, after all, equally matter-of-course for interviewees and researchers in any given country. As Smelser (2003) states, "the last creature to discover water is the fish". People tend not to mention considerations they take for granted. Discussion within the team is therefore of great importance. Discussing the topic list and the results of the test interviews are ways to make clear at least some of the self evident matters in different countries and get a better understanding of mindsets in other countries. We spent hours on discussions with the team and enormously benefitted from what we learned in a previous EU-project (Quilgars et al., 2009).

A very useful research tool in comparative qualitative research is a vignette (Soydan, 1996). A vignette is used in psychology experiments to collect information by presenting hypothetical situations and asking research participants a set of questions that reveal their personal perceptions and values. Vignettes enable psychological research to be conducted in a controlled manner, where the researcher controls the amount of information available to the participants. Vignettes allow the researcher to steer the interviewee's way of thinking and to establish the extent to which implicit norms play a role in their reasoning. It reveals in all the eight countries what it is that people consider self-evident, and essentially, how people think. Four vignettes were used in the research as outlined below.

The aim of vignette 1 was to explore under which conditions people should buy and why and the extent to which buying a house is part of a financial strategy. The aim of Vignette 2 is to see whether mortgage equity release was a solution that spontaneously came to mind when people were invited to advise this couple. Their responses show the extent to which a mortgage equity release is part of people's strategies. Moreover, responses to these situations say a lot about what people consider important for this particular household.

Vignette 1

A young man and a young woman, both of whom still live with their parents, are thinking about buying a house. The woman has a relatively secure job as a primary school teacher but the man has less secure work and has had a series of temporary jobs although some have lasted as long as a year.

What do you think about their plan to buy a house?
Which conditions need to be met for them to buy?

Vignette 2

A couple have recently retired, they are in their late 50s and in good health. They have two children who both have families and moderate incomes. They own an average dwelling in a rural area. They are finding it more difficult to maintain their standard of living in retirement than they thought and are considering ways of increasing their income.

What are their options? What would you advise them to do? Why?

Vignette 3

A 75-year-old lady lives alone in a small house with a garden that she owns. She has been managing at home but is becoming frailer. One of her children lives in a village 30 kilometres away and visits her every week to help her with cleaning the house and doing the shopping. Her other child lives 100 kilometres away and visits on Sundays to cheer the old lady up. The elderly lady's health deteriorates and she is no longer able to care for herself.

What should happen now? What are the options?
Who do you think should be responsible for her care? Why?

Vignette 4

A couple in their early forties inherit € 30.000 from the husband's mother. They have a moderate income. He is a civil servant and she is a freelance journalist. They live in a house that is financed with a mortgage (50% of the value of the house) and an average consumption pattern. Their daughter is 12 and the son is 10 years old They are discussing what to do with this inheritance.

What would you recommend them to do with the money? Why?

Is retiring in one's late 50s considered usual or not? Is this couple, who discover that their income is inadequate, considered irresponsible or not? The aim of Vignette 3 is to see whether this lady may consider using an equity release product, or sell her house, to pay for her care or not. Therefore, the vignette explores ideas concerning care, the possibility of moving to a nursing home and who people think is responsible for care of the elderly. Finally, vignette 4 puts a household in the situation where they have some free money and we intend to explore here how interviewees recommend this household to deal with this money. Important questions here are which priority interviewees give to building housing equity by paying off the mortgage and to which extent income and security in old age play a role here.

Finally, many econometric analyses have shown that housing equity is treated differently from other assets (Horsewood and Neuteboom, 2006 others?). People tend to consume assets in their old age, but not housing assets? We therefore wanted to explore this important question in the interviews. We straightforwardly asked this important question to our 240 households: "People save money for risks and older age. They often save more than might be necessary and

when they are in old age they do not want to spend all their savings. And they choose not to use the equity stored in the house. Why do you think people behave like this?"

Analysis

The 30 interviews in each country were analysed by the country teams. Each team wrote a country report based on this analysis. All eight teams used the same coding frame and instructions for analysis. All teams wrote a report with the same structure in order to be able to make a comparison between the countries. The country reports reflect the differences between countries, but also differences between country teams. In the semi-structured interview a number of different questions were used to trigger reflection and initiate discussion of a given issue from different angles. Often the starting point of the discussion was a general one, leaving it up to the interviewee to frame the issue in his or her own terms; so his/her own original frames of reference were revealed. Further discussion was stimulated by specific prompts so that an issue was approached from various specified angles.

The comparative analysis presented in this report is based on the eight country reports and conducted by the joint Dutch/British team. The research findings were analysed, categorised and we searched for the meanings of the findings and explanations for similarities and differences. In this search we also used the institutional studies which were produced in an earlier stage of the DEMHOW project (Hegedus et al, 2010). Moreover, we used statistical materials produced in the DEMHOW project and other EU statistics. The institutional and statistical information were used as a frame and sources of possible explanations for the outcomes of the interviews. The qualitative interviews provide a close insight into household strategies, how households perceive their situation and how they act. In short, it provides a good insight into why and how people do as the do. But this can not be interpreted without knowledge about the context in a country. For example, we found that in the Netherlands people build much less housing equity than in other countries and that the Dutch seem to prefer to have large mortgages, whereas in many other countries people do not like mortgages and if they have they pay off their mortgage as soon as possible. To be able to explain this, it was important to know that there is a strong tax incentive in the Netherlands; the mortgage interest is for a large part deductible for income tax. This tax advantage was mentioned in the interviews, but in the institutional studies we found the details of the systems and the extent to which it differs from tax policy in other countries. On the basis of the institutional studies we could conclude that the tax system is different and therefore conclude that it is probable that this difference may explain the differences in household strategies. Moreover, statistics on mortgagees in Europe taught us that our 30 interviewees in our Dutch sample were not exceptions.

1.5 This report

In the remainder of the report we will present the findings on the different topics. Chapter 2 deals with housing equity and households' and family strategies. Chapter 3 presents pension strategies and the role of housing equity, whereas chapter 4 pays attention to care in old age and the role of housing equity here. In chapter 5 housing equity is the central issue and in particular the extent to which, and the way, people intend to use it. Finally, the report finishes with a number of conclusions.

2 Home ownership and household strategies

2.1 Introduction

This chapter deals with the financial household and family strategies and the role of buying a house. Firstly we explore why households buy and whether equity building plays a role here. We also try to explore to which extent it can be considered part of an old age strategy.

Then we describe the financial position of the interviewees; their income and their asset portfolio. Then we move to the broader family and explore the role of the family in household strategies including intergenerational transfers. In other words, this section sheds a light on the private strategies of the households and their extended families and the role of housing in this strategy.

In the last part we pay attention to the risks households experience and whether they changed their behaviour or strategy due to the financial crisis or economic recession. Finally, we asked households how they would spend or invest money if they suddenly received an amount of money and why? We present here how interviewees deal with risk and recession and in particular how this impacts on their financial strategies concerning housing equity and pensions.

2.2 The role of buying a house

2.2.1 Why buy?

Interviewees were asked why they had chosen to buy their homes and many gave several reasons. Some of the most common were similar to those given by interviewees in the OSIS study (see Elsinga *et al.* 2007), namely that people thought renting was a waste of money and that buying a property was an investment for the future. Others explained that it was, or had been, cheaper to buy than to rent although they too saw the potential of building equity and becoming outright owners. One German interviewee explained that paying a mortgage is a good way of 'forcing' one to save money and this view was echoed by households in other countries.

Buying was a better investment than renting. I am paying but I am making a kind of saving because it is an asset I have. If I rented I would also have to pay and in the end I would have nothing. It is like making a savings account in a bank but in a flat. I am 'depositing' the money of the mortgage. Moreover, the value I pay to the bank is lower than what I would pay for renting a place of the same size.
(25-35, Portugal)

Many interviewees tended not to give their reasons for buying but explained that they had an opportunity to buy and did so. In the UK, for example, some older and middle aged interviewees said that buying a house 'was just what you did' when you married and wanted to start a family. The view that buying a home was the 'natural thing to do', particularly when starting a family, was echoed by a number of households in other countries such as Finland, Slovenia and the Netherlands. The main issue was affordability, and people bought when they could afford to do so (although a few said that it was still a struggle to buy), sometimes because house prices and/or interest rates were relatively low, or, quite commonly across the countries, because people had been given money or a loan (at a low interest rate or sometimes interest free). For many it was a combination of their personal financial circumstances, the economic climate and various social policies, that created the necessary conditions for them to enter home ownership. For example, a number of older interviewees in Slovenia explained that they or their family had inherited or were given money or a plot of land, and they were then able to build a property. Self-build was common under socialism as land prices were relatively cheap and the state provided favourable home loans. For others, in Slovenia, Hungary and Portugal, the opportunity to buy arose as a result of changes in housing policy following regime change. For example, households in Slovenia explained that they had the opportunity to buy their social rented properties as sitting tenants during the transition from socialism after 1992.

Table 2.1 Interest rate tax advantages for homeowners 2008

	Interest rate deductibility
Belgium	Yes, up to a maximum of 1990 EUR (2009)
Finland	Yes, up to a ceiling depending on household composition
Germany	No, rental incomes can be offset against interest rates, because interest rates decrease the incomes Generally, owner occupiers have no tax advantages regarding their mortgage.
Hungary	No, from 2000-2004 it was deductible up to a ceiling, after 2004 it was eliminated
Netherlands	Yes, almost full deductibility
Portugal	Yes, tax credit is equal to 30% of the mortgage interest and amortization up to a limit of 539 EUR
Slovenia	No
UK	No

Source: van der Hoek and Radloff (2007) and DEMHOW country reports

There were some fairly significant differences between countries. Although inheritance and inter-generational transfers appeared to be very important in a number of countries, including Slovenia, Hungary and Germany, only in Belgium and the UK did interviewees cite the wish to leave their children a property (or use the housing to help their children in the future) as a reason for buying.

This way I also think that at the end of the road I can leave something for my children. Most ambitiously I would be able to save enough money to buy all my children a house. But that of course, is not possible if you have five children. At least I hope to give them something to make their life easier. I think it's normal for a mother to wish that for her children?
(Belgium 25-35,)

In some countries, in particular, Germany, Finland and Slovenia, households explained that in order to live in the type of property they desired (usually a detached family house with a garden) then it was necessary to buy. In Germany, for example, most properties in the rental sector are apartments without a privately accessible garden. The lack of suitable or affordable property to rent was also cited as reason for buying by a few households in Belgium and Hungary. Other reasons given for buying included the security offered by home ownership (as opposed to renting), independence and the freedom to do what one wishes with the property.

In most countries there were no significant differences between cohorts about the reasons for buying a property. However, in Germany, people in the two younger age groups tended to mention housing as part of their retirement plan (see Chapter 6 on the role of housing equity).

I just didn't want to give away my money to anybody, I wanted to invest in something by myself in order to have something for old age. Pension, I don't know if I get that someday.
(25-35, Germany)

Considerations for buying a house of not

In order to explore households' views on buying a property and the conditions that need to be met in order to buy, they were asked to comment on the following vignette.

A young man and a young woman, both of whom still live with their parents, are thinking about buying a house. The woman has a relatively secure job as a primary school teacher but the man has less secure work and has had a series of temporary jobs although some have lasted as long as a year.

What do you think about their plan to buy a house?
Which conditions need to be met for them to buy?

The majority of interviewees in all but one country said the young couple should buy a property. The exception was Portugal where the majority of interviewees (16) recommended that the couple should rent. Interviewees in the older cohort were the most likely to recommend renting, perhaps reflecting their own experiences of renting and late entry into home ownership as well as the young man's employment situation, particularly given the present economic climate. However, younger Portuguese interviewees tended to favour buying a home. Only a few interviewees (in the UK and Slovenia) suggested that the young couple should remain in the parental home (or move in with one set of parents) which would allow them to save money for a deposit.

The main reasons for buying were similar across the eight countries and were similar to those found in the earlier OSIS study of attitudes to homeownership in EU member states (Elsinga *et al.*, 2007). Homeowners generally regarded rent as 'dead money' and thought that buying was the best option as the property would eventually be owned outright and would give them security in the future. There were exceptions, for example, in Germany and Portugal some people felt that renting would be more sensible as the young couple might wish to move home or might have to relocate for work reasons in the future. Further, Germany is traditionally a market of one-time buyers. This was not raised as an issue in other countries where, possibly it is more usual, as it is in the UK, for households to move home a number of times including to other parts of the country.

Whilst the majority of interviewees recommended that the young couple buy, most also said that there were many factors to consider. In the main, these concerned affordability and interviewees suggested that the couple should not overstretch themselves and should look for a suitable and affordable property. In Germany and Hungary, households were more likely to consider the cost of renting compared with buying. Hungarian interviewees, although concerned about the couples' insecure financial position, felt that they should buy as this would be cheaper than renting. A few households mentioned that there were other costs such as maintenance of the property to be considered and that renting might be cheaper in the long run as the landlord would be responsible for the upkeep of the property (Germany and Portugal).

Other interviewees felt that buying was important enough to warrant the couple making some sacrifices (such as forgoing holidays and generally being careful and thrifty), as people in the two older groups often said they had. Older interviewees sometimes wondered if young people were as willing to make sacrifices as people had been in the past whilst others felt that it was even more difficult to buy a property than it had been when they bought their first home.

A few interviewees of all ages, in a number of countries, including those who believed it was a good idea to buy nevertheless pointed out that it was not worth risking a relationship or their quality of life.

They have to think thoroughly about whether they can buy it and live normally thereafter...not to work for the next 20 years just for the apartment...and then also the kids must suffer and so on...

(25-35, Slovenia)

In most countries interviewees saw the insecure nature of the young man's employment history as the main obstacle to their buying a home. However, this was not raised as an issue in Finland nor was it seen as a particular problem in Germany or the UK as respondents felt that the woman had a relatively well paid and secure job with good employment conditions (e.g., maternity pay and pension), as long as the couple could afford the mortgage repayments. Many interviewees thought it would be sensible for the couple to buy somewhere they could afford on her salary alone (and a few suggested that the house should be in her name as she was responsible for paying the mortgage) whilst others thought the young man should find settled work and retrain if necessary. Younger interviewees in Belgium did not feel that his employment situation was important as the couple could claim state benefits if he became unemployed again.

Most households emphasised the importance of having savings to use as a deposit in order to reduce the amount they would have to borrow. A few interviewees also thought it important that they hold on to some savings as a buffer should they face financial problems in the future. Interviewees in Portugal made the point that the couple would have to save a deposit as they did not think it would be possible to secure a 100 per cent mortgage in the wake of the sub-prime lending scandal. Hungarian households also questioned whether the couple would be able to secure a loan.

Some interviewees felt that this was a good time to buy, as interest rates were very low and property prices lower than they had been in recent years. A few wondered whether the couple should wait as they thought prices might fall further. Only a few interviewees mentioned that interest rates were bound to rise and that the couple should consider whether they could afford to pay their mortgage once this happened. Interviewees in Slovenia and the Netherlands believed that the lender would advise the young couple how much they could afford to borrow.

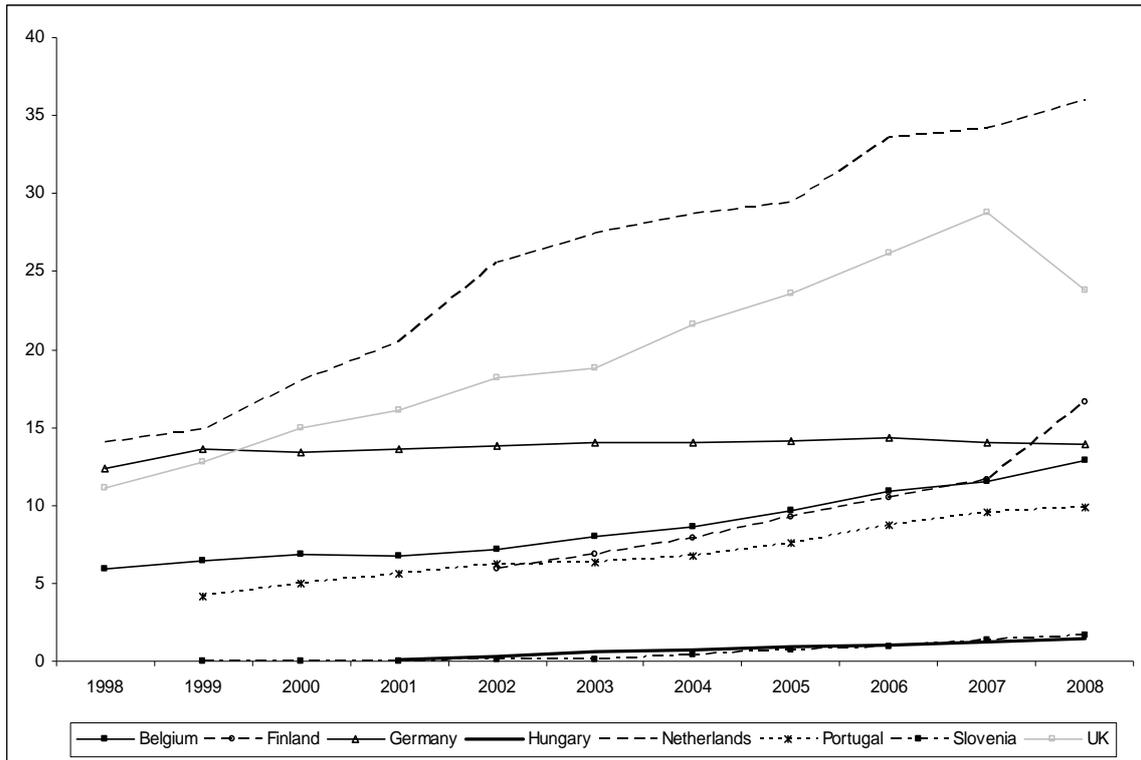
A few interviewees (in Slovenia, Netherlands, and Hungary) thought that the young couple's parents might be able to provide financial help whilst others thought that the parents could provide a safety net should the couple find it difficult to pay the mortgage (they could either help with mortgage payments or provide a home if the couple were forced to sell).

Another factor considered important to interviewees was the young couple's relationship, some were concerned that the couple had never lived together. In the Netherlands and Germany, for example, it is not usual for couples to buy a home without having lived together first (it should also be remembered that German households normally buy a property far later in life than in other countries). Others felt that the couple should try living together in a rented property before committing themselves to owner occupation whilst others said that if the relationship did not work out or if they could not afford to keep the property then they could sell up. A few Belgian interviewees pointed out that even if the couple had to sell their home, they were almost certain to have built equity and stood to gain. A small number of older people thought that the couple might have problems meeting their mortgage payments should they decide to start a family but for the most part this was not perceived as a problem, a couple of UK interviewees explained that the woman would be entitled to maternity benefit.

2.2.2 Financing the purchase

Next we explore how households did arrange to finance their dwelling. For buying the house, most interviewees in all eight countries used a mortgage. Only few people could do without a mortgage. These few people inherited a dwelling or they were able to pay the dwelling by the proceeds of the previous dwelling. Figure 2.1 provides an overview of the residential mortgage debt per capita. This figure makes clear that mortgages play a very important role in the Netherlands and UK and much less so in Hungary and Slovenia.

Figure 2.2 Residential mortgage debt per capita, 000s



Source: European Mortgage Federation, 2008

In most countries the younger cohort was often helped by financial support of the (grand) parents. In the Netherlands this was 6 out of 10 households from the youngest generation; in Hungary 8 out of 10 were helped by the family. In Hungary for the younger generation it is almost impossible to buy a house without the help of the family. This financial help can have different shapes: financial gifts, family loans, a guarantee for the bank and also labour from the family as an Slovenian example illustrates.

We got some credits... very little, those that you could get in the past from firms...but mainly with our own money. We were doing construction for about ten years, this means slow ... the pace ... so you can build with your own money'
(45-55 years, woman, Slovenia)

Most had a mortgage and paid part of the dwelling by either the proceeds of a previous dwelling, with own savings or with gifts or loans from the family. So in all countries except the Netherlands a down payment or a least a guarantee is possible to get the mortgage. Only in the Netherlands and the UK there were interviewees who took out a loan that was higher than the value of the dwelling. In other countries this was considered too risky or just impossible because lenders would not provide such high loans. This is in line with figure 2.1 that shows that Netherlands and UK have the highest mortgage debt and that also shows the limited role of mortgages in Hungary and Slovenia.

"We had money and we did not want to make a 100% mortgage. If you have money, it is always good to make a down payment. Moreover, you are remunerating that money at the loan's interest rate."
(Man, with children, 25-35) Portugal

In many cases interviewees found the "Why did you finance the dwelling this way?" a bit of an odd question, they had the feeling they had no other choice. This was in particular the case in Finland and Belgium.

"If there was another way to surpass the banks, I would certainly do that, but I did not have the money, so I had to lend it."
(I2, woman, 45-55 with children) Belgium

When asked about the type of mortgage, many interviewees explained that they had a normal repayment mortgage. But it was hard for them to explain the details of what they consider a normal mortgage. In Germany, Belgium and Finland the amortisation and the annuity mortgages were the standard. In Finland the steady payment must be added to these two most common mortgages. In the UK the endowment mortgage was also mentioned although most interviewees currently had a repayment mortgage, and in the Netherlands the savings mortgage and the interest only mortgage were most popular.

In Portugal, Hungary and Slovenia, family loans, inheritance and family help were the most usual way to finance the dwelling in particular among the older generation. Moreover, in Slovenia help from the community or company was part of a socialist system. Finally, in Hungary and Slovenia some interviewees explained how they benefited from the transition in the early nineties by getting the opportunity to buy their rental dwelling at a low price.

Table 2.2 Features of mortgage loans

	B'gium	G'many	Finland	Hungary	Nether-lands	Portugal	Slovenia	UK
% of owners with a mortgage (2001)	44	47	40	****	88	29	****	61
LTV recent buyers (2001)	80-85	70	75-80	****	112	70-80	****	70
Duration of loan (2001)	15-20	25	15-20	15-20	30	25-30	****	20-30
Variable rate or fixed-interest period (2001)	Fixed 20	Fixed >5	Variabl e rate	Fixed and floating rate ¹	11	<1	****	Variable and short term fixed rate

Sources: Quantitative Studies OSIS, Institutional Studies OSIS.

* Doling and Ford (2003),

** Only Flanders

*** Anna Andersson and Jan Henriksson (2006) Hushållens boendutgifter och inkomster, 1997-2005, "Households' housing expenses and incomes 1997-2005"

**** Data not available

Build housing equity if money available?

We continue with the interviewees' reflections on the following vignette which was introduced in order to explore how households would recommend others to deal with a sum of money they had inherited. Would they recommend to invest this in housing or do they prefer to invest in other assets or do they like to spend. Our interest here is to find out to which extent pension building in one or the other way plays a role in people considerations in spontaneous reactions without mentioning housing.

A couple in their early forties inherits € 30.000 from the husband's mother. They have a moderate income. He is a civil servant and she is a freelance journalist. They live in a house that is financed with a mortgage (50% of the value of the house) and an average consumption pattern. Their daughter is 12 and the son is 10 years old They are discussing what to do with this inheritance.

What would you recommend them to do with the money? Why?

¹ See OECD (2005) Housing Finance Markets in Transition Economies, Paris: OECD.

The most mentioned answer is pay off the mortgage. In almost all countries this is the most common first reflex. It is perhaps remarkable that older people were more likely to advise the couple to pay off the mortgage. Apparently having a debt is considered most undesirable by this group. In particular in Hungary having a mortgage is considered a very insecure business, something to get rid of as soon as possible. This should be seen against the background of the recent problems that Hungarian mortgagees experienced who had mortgages in foreign currency. Due to the devaluation of the Forint, they saw their mortgages increase incredibly and which brought them in financial trouble. Moreover in Hungary as well as in Slovenia outright ownership is the norm, while having a mortgage the exception as can be seen in figure 6.1.

'The priority should be to repay the house as soon as possible and after that have a good life... Because today, being without a loan, I think, that is the best thing... (25-35 years, woman). Slovenia

W: Pay off the house! In either case, first of all.

I: Why would you advise that?

W: So that the interest costs are because the payable interests are never as high as the credit rate. So paying off the house makes sense in either case. (#17, 45-55) Germany I think I would get rid of the mortgage. Because their income is not so secure, and it is depressing to live with a mortgage under not so secure financial conditions, as they risk losing their apartment with non-payment. Maybe, if someone is more of an entrepreneurial spirit and wants to invest it, they might double it in a few years time. But this couple does not seem to be like that...as they have not reached entrepreneurial success by the age of 40. (I-6) Hungary

They should pay some of the mortgage off to reduce the burden, it is difficult to save at the moment but they need to look at some sort of saving plan for their children's education. I would not advise them to blow it! Paying your mortgage off is such a boost, it makes such a difference and they would have more money each month – they should do something sensible with it...but it is okay me saying that now, would I have been so sensible in my thirties? (Couple 65 – 75) UK

So paying of the mortgage and thus building housing equity is the first answer for many interviewees. However, the motivation is mostly that people do not like to have mortgage and prefer to have lower regular expenses in the future, rather than emphasising that they build equity. But this is of course the other side of the same coin and can be considered an implicit strategy

However, in some cases paying off the mortgage is weighted against other options. Low interest rates appear to play a role in Finland and Portugal, countries where a variable or short term interest rate is common as appears from table 2.2

The way home ownership is taxed (see table 2.1) is also relevant here. The tax advantage is an important factor in the considerations to pay off the mortgage or not in Belgium, Finland and the Netherlands. In these three countries households can deduct the mortgage interest from their taxable income, in the Netherlands this deduction is without limits and implies that one third to half of the interests payments is paid by the tax authority. In the Netherlands only one third of the interviewees consider to pay off the mortgage which undoubtedly is caused by the favourable tax treatment in the Netherlands. Tax policy thus appears a reason not to pay of the mortgage but to choose for other options.

My first answer would be repaying the mortgage. But there is a detail here. The best rate the average Portuguese may get is the rate for housing credit. So, if I decide to use the 30.000 euro to repay the mortgage and then I need them for schooling expenses or anything else, when I get the loan the rate will be three or four times higher than what it would be if it was housing credit. Thus, if the person thinks s/he may need the money, it is not worthy to repay the mortgage. And if they have other credits, then the best is repaying them. ((Portugal, 25-35)

F: I would amortize the debt.

M: Yes, I would rather do the same though it is very affordable now with the low interests. But here one should know of course how much they have money for everyday expenses; are they having a bit tight or not? Anyway, I wouldn't first go and buy a boat, for instance, with that sum of money, because then the money would be spent in the boat and their expenses would grow even many times bigger. But, the most sensible thing to do, as I see it, would be to pay off the debt in order to release some more playing money.

F: So I would do also. But a bank person might say: with 1,65, in no way! Good heavens!

(Finland, couple with children, 65-75)

"See if it is profitable to pay back the mortgage, because you can always use the mortgage to reduce your taxes."

(D2, woman, 45-44 without children, Belgium)

"I would invest and put aside for emergencies. I would certainly not pay back the mortgage, else it is no longer tax deductible."

(C2, woman, 45-55 without children, Belgium)

Education for the children is mentioned in Slovenia, Hungary, the UK and the Netherlands. In Slovenia and Hungary interviewees mentioned to save for children's education abroad. Pay of other debts would be an option for some in the UK and in the Netherlands. Finally for the self-employed investing the money in their company appeared often preferred option.

In all countries in the end people prefer a mix of uses, pay of the mortgage, save or invest and consume little. Just to enjoy the inheritance a little, but not too much

There are lots of things you could do with it – I think I'd take a small pot for a family holiday, pay something off the mortgage to reduce the monthly payments, I know that high interest accounts are few and far between at the moment but they should try to find an account...then the money would be there for any eventuality...I have quite a strong view about putting my children through university...and I know that on our incomes we are just not going to be able to manage it – so that money would take some weight off our shoulders...

(e UK, 25 – 35)

2.3 Financial security

2.3.1 Sources and security of household income

People in the older age group had all reached the official retirement age² and most had retired from paid work whilst most of the interviewees in the two younger age groups were in employment (including self-employment). There were exceptions, some in the middle age group had retired early or were semi-retired whilst a few younger interviewees were unable to work because of ill health or a disability and were in receipt of welfare benefits. A few young people (usually women) were on parental leave; others were economically inactive or in full time education. Of those in education, most either had a partner in full time work and/or worked part time themselves. In the UK, Hungary and Germany, a few interviewees in the older age group had continued to work past state pension age (in some cases into their 70s and even their 80s). Governments in most of the DEMHOW countries have introduced policies which encourage people to work beyond retirement age (see Chapter 3). However, interviewees did not tend to mention these, rather they explained they continued to work for financial reasons or simply because they enjoyed their work.

The main sources of income for older people were pensions, state, municipal or legal, occupational or private (see Chapter 3) and the main source of income for those in employment

² The official retirement age in all the DEMHOW countries is currently above 60 although most countries have raised or plan to raise the age of retirement to 65 or older.

was a salary (or two salaries where both partners worked). A few interviewees said they supplemented their income by drawing on their savings and investments although others were keen to preserve these. A number had rental income from second properties. A few younger interviewees received educational grants; welfare benefits (e.g. paternal grants, child benefit) and a small number said they received regular allowances from their parents or grandparents. Interviewees in the middle age cohort were more likely to be dependent on income from employment.

Interviewees were also asked if their income was secure. Those currently in receipt of a state pension (or statutory occupational pension) in some countries, including the UK, the Netherlands, Finland and Slovenia, believed their pension was secure but some remarked that the amount they received was low. Table 2.3 shows the huge variation in levels of dissatisfaction with pension systems in the DEMHOW countries and it can be seen that people in the Netherlands are the least dissatisfied (11%) whilst citizens in Portugal are the most dissatisfied (86%). Interestingly, over the EU 27 as a whole, older citizens and those in receipt of pensions tended to be the least dissatisfied. It is also worth noting that whilst the UK has the lowest replacement rates only slightly over a third of citizens judge pension provision to be bad compared to almost three-quarters (73%) in Belgium where replacement rates are much higher.

Table 2.3 Percentage judging pension provision as bad

Belgium	73%
Finland	33%
Germany	46%
Hungary	73%
Netherlands	11%
Portugal	82%
Slovenia	45%
+UK	34%
EU27	49%

Source: TNS Opinion & Social (2010)

Table 2.4 Percentage judging their personal job situation as good

Belgium	70%
Finland	74%
Germany	59%
Hungary	24%
Netherlands	65%
Portugal	49%
Slovenia	58%
UK	51%

Source: TNS Opinion & Social (2010)

A few interviewees in Portugal feared that the state pension scheme was unsustainable even in the short term.

At this moment I think nothing is safe. Considering our present situation, the conjecture, we cannot say it is safe. What today is safe may not be tomorrow. We never know what tomorrow will bring. Employed people become unemployed. We, the retired, are also in a situation that we never know what can happen.
(65+ Portugal)

Interviewees receiving pensions from other sources appeared to be more concerned about the security of their income, a few interviewees in the UK explained that their pension fund had failed to perform as well as they had hoped and also had concerns about occupational pension schemes (both their own company scheme and occupational pensions in general).

There was a remarkable degree of confidence amongst employed interviewees about the security of their income from employment. Their views and expectations were very similar to those of households interviewed in the earlier OSIS study (see for example, Jones *et al.* 2007) and interviewees appeared confident about their ability to remain in work or to find alternative employment if this became necessary. This was perhaps surprising given the economic situation at the time of the fieldwork for this study and the findings of a recent Special Eurobarometer survey (TNS Opinion and Social, 2010). The Eurobarometer survey found that slightly over half of Europeans judge their personal job situation as good (see table 2.4). In the DEMHOW countries, citizens from Finland (74%) and Belgium (70%) are the most likely to be satisfied with their job situation whilst citizens in Hungary considered their job position as good (24%).

Across the eight countries, public sector employees tended to feel the most secure although interviewees often tempered their responses by adding that anything was possible in the current economic climate. For the most part though, people believed that if the worst happened and they or their partner was made redundant then they could find another job. A couple of people had been made redundant but were optimistic and expected to find another job soon. Those who were self-employed or working on temporary contracts tended to feel less secure although some in the youngest age group were quite confident that they would have contracts renewed or find alternative positions.

I have a contract...it finishes in January next year...But... I am positive because I think they will offer me a permanent contract that would be a normal next step. But if the company would change direction, or if it would be affected by the crisis or other reasons that people would be made redundant, in that case I am also positive that I will end up somewhere. Or I will start again my own business. I am not worried about that.
(25-35, Netherlands)

2.3.2 Assets and savings

Other properties

Many households appear to have other property next to their owner occupied dwelling. These other properties include holiday homes as well as investment homes. The former are used for recreational purposes, while the latter ones are meant to create return on investment. In Portugal most of the older had a second property, but also 50% of the youngest had. This second property is part of a conscious strategy to build assets.

"My idea of retirement passes through the idea of investing in real estate. And being able, in some years, to live from the income the estate may grant me. This is an objective I have in life. The Portuguese like to invest and have a short term return. I am investing for a long term return."
(man, with children, 25-35, Portugal)

In Finland about half of the interviewees had a second property. The summerhouse appears more often among the older, while investment houses are more equally spread of the cohorts.

In Germany the second property is common among the older cohort and two of the youngest cohort have second properties here. These are grannyflats.....

In Slovenia the second property mostly is a summerhouse. 50% of the middle cohort and two younger had a summerhouse an used is only for recreational purposes with the family. In Hungary we found four investment houses and six holiday houses among the interviewees.

In the Netherlands and Belgium some older had second properties mostly by inheritance. But remarkable is that many young people intend to invest in a second property as part of their financial strategy. Some of them note that investment in real estate provides more security or is less risky than investments in stock and bonds.

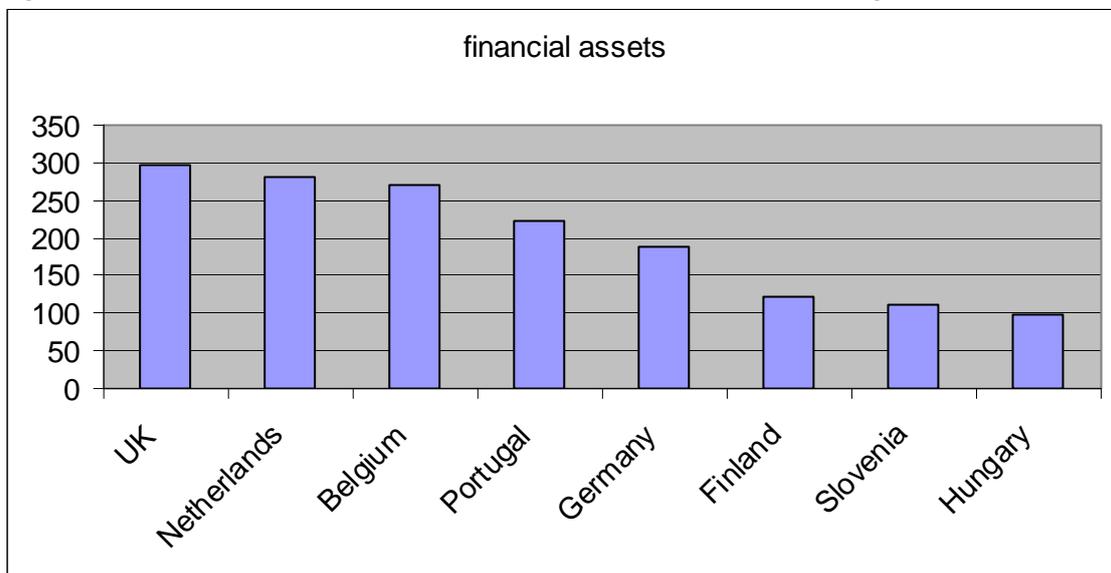
In the UK two old people had a second property that was used for recreational purpose and only on in the middle. A second property did not appear as financial strategy among the British interviewees.

The summerhouses have a special role in the financial strategy. Interviewees often explain the see it as a way to improve quality of life, the use it for holiday with the family and do not see it as an investment. However, when asked about old age and plans to sell, many of them explain they want to stay in their house, but they could imagine selling the summerhouse. So in this way it is considered a nest egg that can be transferred in to cash much easier than the first property.

Financial assets

Next we explore the financial assets in the portfolio of households. Figure 2.1 provides an overview of households’ financial assets in 2007 as a percentage of the gross domestic product. These include: currency deposits, shares and their liabilities. The figure shows that the amount of financial assets ranges from almost 100% in Hungary to almost 300 in the UK.

Figure 2.1 Households’ stock of financial assets as a percentage of GDP, 2007.



Source: Eurostat, 2008

From the interviews it appeared that financial assets play a role in household strategies. In Finland it was report that these are most used by the two younger cohorts and mostly are shares in investments funds. In the Netherlands one in three reported to have shares or bonds. In Portugal very few interviewees reported they have share or bonds, however, many told that they had these investments in the past. In the UK a mixture of stock and saving, in particular tax free savings products are quite common among interviewees. In Slovenia about half of the interviewees have shares. Many of these have to do with the privatisation of state companies. Many employees received shares in this process of privatization.

For the self employed investing in the own company is the main strategy. In Hungary this strategy often goes together with tax evasion. They start a company due to lack of jobs. They invest in the company and tax evasion is part of their strategy. This strategy is rather widespread in Hungary where self-employment is estimated by some to comprise 25% of the economy. In the Hungarian case there were quite some mixed couples, one with a regular job and one self employed. Five households however had only their own business as source of income. Only two out of these five had savings, insurance or an apartment to rely on.

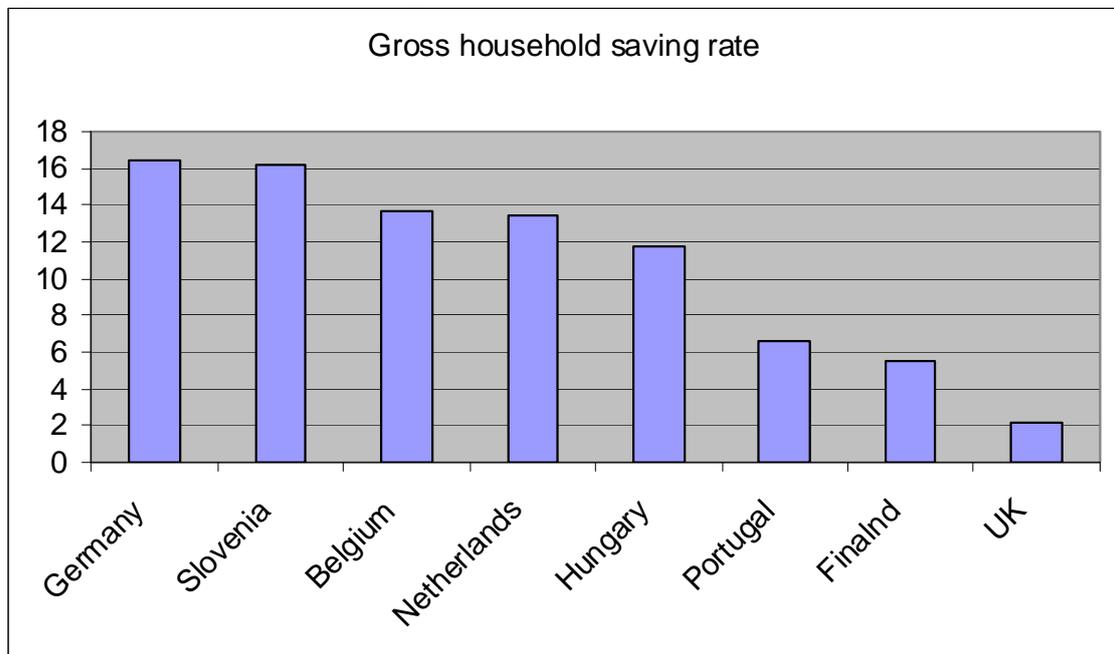
Savings

Savings play a role in every country. An overall picture of saving and more in particular the so-called savings rate is shown in figure 2.2. Here we observe rather large differences between the eight countries. In the UK the savings rate is a bit more than 2% of household income, whereas this percentage amounts more than 16% in Germany. If we compare this with figure 2.2 we may conclude that in UK households more often have financial assets. Netherlands and Belgium both have quite some financial assets and some savings, while Hungary and Finland are in both figures at the lower end.

Most interviewees have some savings, only in Hungary people say they need all the income for daily expenses and there is no room for savings.

"... these days younger people have tendencies to spend money they haven't got yet. Personally, I first save and then spend. After that I am making sure the amount spent will be saved back on my bank account. My car for example I only bought after saving enough money for it. My kids on the other hand just do not care, they spend and in the worst case scenario they fall back on OCMW (social security). Personally, I would rather die than get money from the OCMW." (women, 45-55 with children) Belgium

Figure 2.2 Household savings as % of total household income, 2007



Source: Eurostat, 2007

2.3.3 The importance of and role of the family

Almost without exception, interviewees across the eight countries described their family as important, or very important to them. For the most part, interviewees talked about their close family, their children, grandchildren and parents. A few mentioned siblings and grandparents but interviewees rarely described close relationships with their wider family (cousins, nephews,

nieces, uncles and aunts). Clearly, and as other studies have suggested, (Attias-Donfut *et al*, 2008) the regularity and intensity of support was linked to intergenerational cohabitation and residential proximity between family groups. In the DEMHOW study, households who lived some distance away from other family members, had less contact with them and the extent to which they could play a significant role in one another's lives (e.g. socialising, providing child-care, caring and help in kind) was limited. Nevertheless, most interviewees said they kept in touch with their family and described their relationship as close. Interviewees did not always find it easy to explain why their family was important, as it appeared self-evident that relatives would share some emotional bond with their blood relatives. However, reasons given included the emotional and practical support family members provided and the feeling that one could always rely on them, as one young Slovenian man explained.

The first thing why parents are important is that you have their support when you need it. There are ups and downs in your life and first you turn to your parents, to those who are closest to you. That is the first thing, to share moments with them, good or bad ... And not the least, if you are, say, in financial difficulties, you know that your parents, if they can ... would be the first to help you as their child...
(Slovenia, 25-35).

Although people in most countries felt their families were important, in part because of the emotional and practical support they had or could provide, it appeared that these types of support was more important in some countries than others. Whilst households across the countries appreciated the help and support provided by their family, in others this help was regarded as essential. For example, in Hungary, it was felt that households simply would not be able to manage without the support of family members, and family breakdown, especially in the face of personal problems or illness could result in real hardship.

Help in kind provided by family

Many households in most countries described a range of non-financial support or 'help in kind', provided to and received from, their families. The one exception was Germany, where very few interviewees reported having received help in kind. Those that had were young people who had benefited from childcare or gifts for their children. As noted earlier, the extent to which families could provide support depended on a number of factors, not least residential proximity, and this appeared to be a particular issue in Germany. A number of interviewees in the UK and Portugal had chosen to live close to their parents in order to maintain support networks (both to give and receive support) and interviewees in other countries such as the Netherlands also stressed the importance of living near their families. This appeared to be particularly important in Hungary where almost two thirds (19) of interviewees had chosen to live close to their families. Young households in the UK also made the point that their own parents worked full time or had other commitments.

My mother works full time so she can't do much to help with childcare and my husband's parents care for their elderly parents so...
(UK, 25 – 35)

Perhaps surprisingly, people did not tend to say that they cared for elderly relatives but this type of support appeared to be significant for some households. Middle aged and older interviewees in the UK and Belgium sometimes said they were caring for their parents or other elderly relatives (or had done so in the past). The intensity of support varied but often involved regular (sometimes daily) visits and help with chores such as shopping and cleaning. In other cases the support was more intensive and a number of households had taken elderly relatives into their homes. A few interviewees explained that they (or their relatives) had devoted years of their lives to caring for elderly relatives, spouses and in-laws (see Chapter 4).

One important form of help in kind was childcare, this could take the form of occasional babysitting but it was also sometimes provided on a regular basis and saved young families a considerable amount of money. Grandparents in the Netherlands who provide childcare get financial support from the government, this is not the case elsewhere, nevertheless, it appeared that some older people were devoting significant time to caring for grandchildren.

In most countries, households in all age groups provided help to, and received support from, older and younger relatives but the types of support varied. For example, younger households in a number of countries said they helped older relatives with chores or maintenance, provided advice and emotional support or gave gifts and treats as a way of 'giving something back'. In all countries the middle age group appeared both to provide and receive the least support (although this appeared to depend in the UK at least, on the age of their children and the age and health of their own parents). Overall however, as earlier studies have suggested (Albertini *et al.*, 2007; Attias-Donfut *et al.*, 2005) the direction of help in kind was mainly downward, from the older generations to the youngest. For the most part, the support provided was *ad hoc*. Older people bought clothes for their children and grandchildren, family members took relatives on holiday or let them have use of their holiday homes, families invited relatives for meals and even cleaned their children's homes for them. Whilst this type of support was much appreciated by young households in particular, it appeared that most gave this support because they wanted to make life a little easier for young households. However, there were cases where households would have found it difficult to manage without this help.

My wife takes care of my son's clothes and she cleans his house. He comes every weekend to have lunch with us and he takes a lunch case. My daughter also comes and when she leaves, she takes a lunch case enough for almost the whole week. From my standpoint, youngsters would find great difficulty in living with some dignity if they did not have the help of parents.

(Portugal, 65-75)

Financial support provided by the family

Across the eight countries, households reported that they had received some form of financial help from their families. There were differences between countries and between the different age groups with older people tending to have had less financial support in the past from their parents and grandparents. The reason for this related to the financial circumstances of the older generation (i.e. the parents and grandparents of the older cohort) who simply could not afford to help their children or grandchildren out during their lifetime. In Portugal for example, older interviewees explained that their country had been much poorer in the past. Similarly, many older interviewees in Finland and the UK said that their parents did not have the resources to support them financially during their lifetime (although in some cases they had been able to leave an inheritance). Older people tended not to receive financial support from the younger generations.

Those in the middle age cohort tended to have had more financial help from their parents or grandparents in the past than people in the older cohort. This was usually a gift of money, land or property or a loan to help with the purchase of a property. People in this age group tended not to be in receipt of financial help from their families.

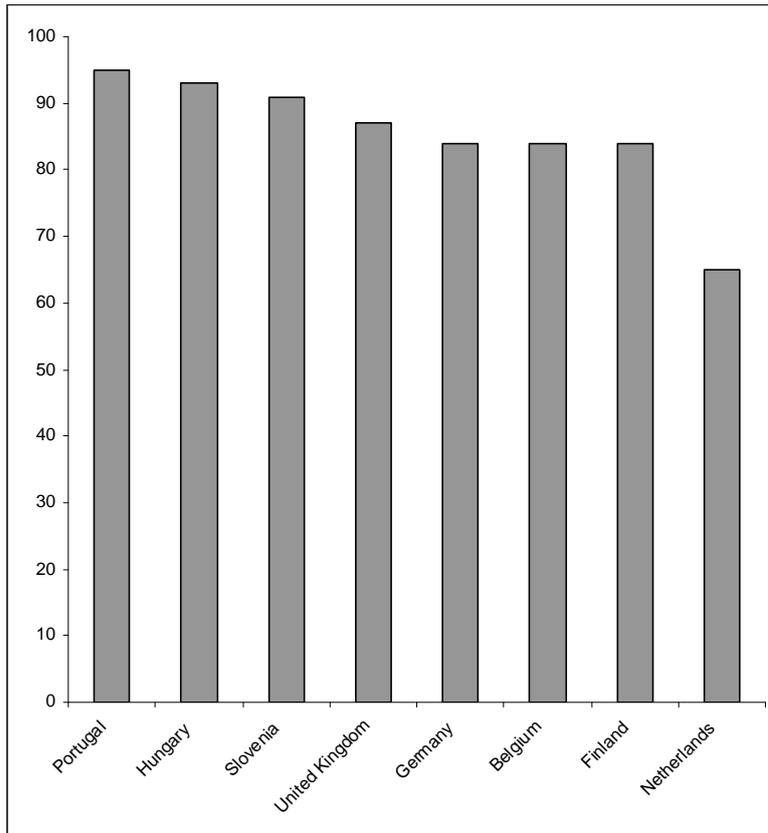
Overall, households in the youngest cohort received the most help financially from their families, usually their parents and grandparents and few were providing, or had provided, financial help to older relatives, however, a number said they had helped siblings, nieces and nephews).

Whilst the DEMHOW study did not specifically ask how important it was to support young adults, it was clear that most families provided financial help to their children and grandchildren, and in some cases this was quite substantial. Figure 2.3 presents Eurobarometer (2009a) findings which show that people in the Netherlands were far less likely to see support for young people as important compared to other countries, in particular Hungary, Portugal and Slovenia. The DEMHOW study also found that Dutch households did not appear to think it was very important to support children financially. However, when asked about the support they had received, it was evident that many Dutch interviewees had in fact received a good deal of help from older relatives for example with buying a house.

Financial help was, in the main, provided on an *ad hoc* basis. The help often took the form of a gift or loan of money to help at a time of difficulty or, as will be seen, to help with the purchase

of a property or to set up home or in a couple of cases in Hungary, to set up a business. There were examples of parents and grandparents making regular financial contributions to their children and grandchildren. These included paying mortgages, kindergarten fees and car loans. Many younger interviewees had received regular financial support from parents and/or grandparents when they were in full time education. Parents (or grandparents) had bought properties for their children, paid a monthly allowance or paid their school fees.

Figure 2.3 Percentage answering ‘Yes, the financial help of parents and grandparents is important for young adults who establish their own households and families’



Source: Eurobarometer, Intergenerational solidarity, 2009

Many young people (and some in the middle age group) had received help to buy a property although the extent of this help varied. In some countries such as the UK, this was usually a gift of money or a loan (either interest free or at a low interest rate) to use as a deposit. In other countries it was not unusual for parents or grandparents to have given young people a property, or to have bought a building plot or building materials for them (Slovenia, Germany and Hungary). In some countries such as the Netherlands, Belgium and Germany, the tax system encourages giving during one’s lifetime.

The importance of inheritance

Households were asked specifically about the importance of inheritance, whether they had benefited from a bequest, and/or expected to in the future, and whether they thought it was important to leave an inheritance. It should be noted that interviewees in different countries did not give the same meaning to ‘inheritance’. For example, in the UK people understood the term as referring to a bequest (usually of money or goods) whilst in other countries an inheritance, sometimes referred to as an ‘early inheritance’ or in Finland, an ‘advancement’, was something that could be gifted during one’s lifetime (‘giving with a warm hand’ as it is known in Germany).

This type of intergenerational transfer is discussed above under financial help (see also Chapter 6)

Many interviewees across the eight countries had benefited from an inheritance. For the most part, unsurprisingly, people in the older age groups were the most likely to have already inherited, from their parents, grandparents, spouses and siblings. A few in the middle age group had inherited from their parents, grandparents and other relatives, people in the youngest age cohort were the least likely to have inherited. People had inherited properties (or a share of a property), land, money and heirlooms. A few older people had inherited fairly substantial amounts whilst others had inherited relatively small sums of money.

Older people, in the main, did not expect to inherit (or to inherit again) either because all their close relatives had died or because their parents had no assets to leave. People in the two younger age groups were more reluctant to talk about their expectations of an inheritance. Amongst those who did, a common response was that they would expect to inherit 'if there is anything left'.

Opinions on leaving an inheritance were mixed. It might be expected that views on whether to leave an inheritance might be influenced by the country's fiscal policy but there was no clear evidence that this was the case. For example, in Germany, Belgium and the Netherlands, tax regimes favour giving during one's lifetime rather than bequeathing assets. Nevertheless, interviewees in Belgium and in Germany still felt it important to leave a property to their children, indeed, as will be seen, this was one of the reasons Belgian households gave for buying a home.

Overall, in most countries, households felt that it was important to leave something to their children. A few said that it was not important but something they would like to do so if they could. Interviewees across the countries said that they might need to use the money themselves. Interviewees of all ages also felt quite strongly that older people should not live frugally or even deny themselves some luxuries simply in order to leave an inheritance.

I work with the elderly and see how they scrimp and save and do without – they won't spend it on things that they need because they want to leave it – I think it is very nice if you do have something left over...if you have something to leave then fair enough – but people should stand on their own two feet and should not expect to get anything from their parents...

(Couple 65 – 75, UK)

No, leaving an inheritance is not at all important to me. I am not going to save everything for my children. I want to live my life too...I already paid their university...And now is my time and OK, if there remains something, they can have it, but I am not going to save especially so that they can have it easier...

(45-55, Belgium)

However, as will be seen in Chapter 5, when these same households were asked their views on using housing equity they often said they would be unwilling to use reverse mortgages as they wished to leave their properties to their children.

Yes, leaving an inheritance is surely important, it is one of the reasons for buying a dwelling...first it is good for myself so I invest in something but also it is good for the children...so in these difficult times children will get something after us...it means they will not be without anything – 'naked and barefoot.'

(25-35, Slovenia)

Younger households with children often talked about the importance of helping their own children when they were still young, and of ensuring that their children would be well cared of if something should happen to them.

If both of us would pass away, now with children, something has to be arranged for that. Who takes care of them, but also...in financial terms, if she wants to study, there are means to do that...But if I become 80 and pass away, then no money needs to be passed on. We live now...
 (25-35, Netherlands)

As has been, seen, many households had already helped their children and grandchildren and a few thought there was no need to leave an inheritance as their children were already financially independent and even quite well off

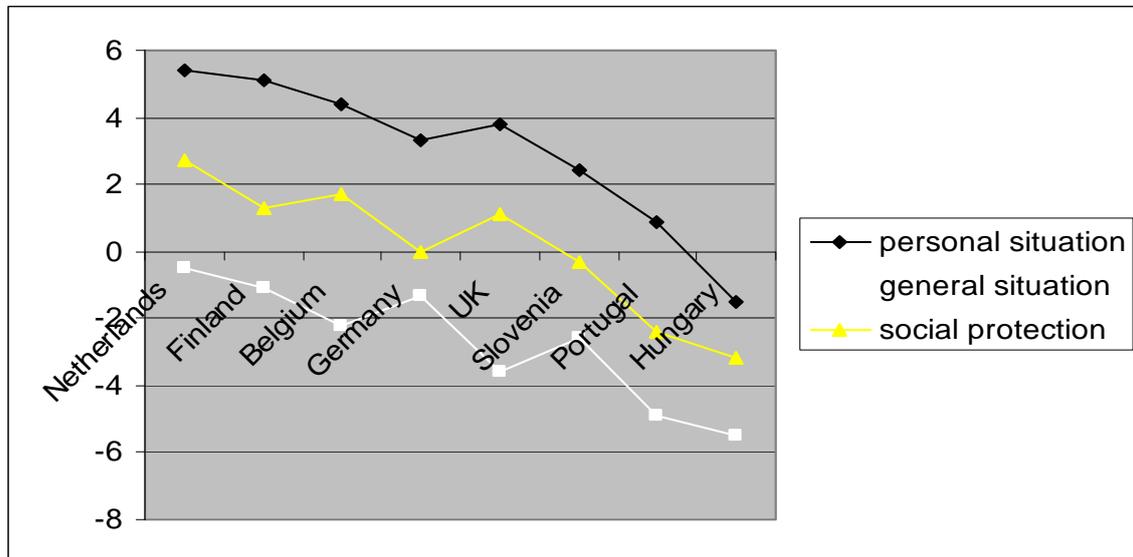
I still attach some value to that [an inheritance] but it become less important because I see that the children are increasingly well-off. And now I say, well the money we have, we can spend it, because no one is waiting for that...
 (65 +, Netherlands)

I think it is more important what we give them throughout life but if they get some benefit from what we bequeath them that is good. When we bought the house we did not think about it in that way but now – yes, it is good to have something to bequeath to the children.
 (65+, Belgium)

2.4 Risk perception and the impact of the recession on behaviour

In this section we deal with the perception of risk. To provide a back ground picture of how people perceive the situation in 2009 we present the results of a survey held in early 2009 for the European Commission. Figure 2.4 provides an overview of the so-called social position in the six countries under study. The figure present are an index on personal situation, general situation and the social protection . The score is based on a range of questions in these three areas. The detail of the index can be found in the report Social Climate (European Commission, 2009).

Figure 2.4 Social position in the eight countries under study



Source: Eurobarometer, Poverty and social exclusion, 2010.

Considering the social protection we see the highest score for the Netherlands and the lowest for Hungary. This is in line with the figure on social protection in chapter 1. On the left side of the figure we encounter the social liberal, the corporatist and the liberal welfare regimes. On the right side the Southern and Central European regimes. Remarkably the score for the UK is considerably higher than for Germany.

When we compare the general situation in countries with the personal situation as scored by the interviewees, we see a gap for every country. Remarkably the gap is relatively small for Germany and Finland and relatively large for the UK. In other words people in the UK are relatively optimistic about their own situation in the context of the general situation while the Germans and the Finnish are more pessimistic (or perhaps realistic).

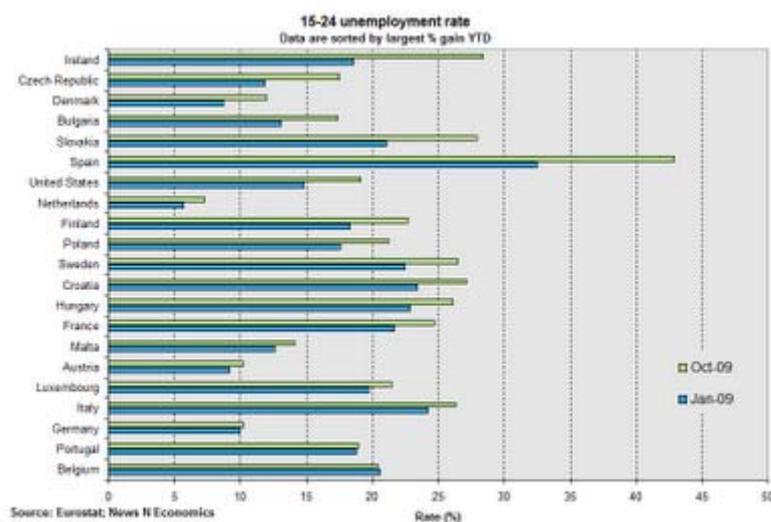
2.4.1 Risk perceptions

In our interviews we asked people; what are the risks you face that may impact on your situation in retirement was one of the question to the interviewees. We explored the different kinds of risk.

Income risks

Unemployment is considered the main risk in all countries. As Figure 2.5 shows in many countries unemployment rates are increasing, but up to October 2009 relatively low in the Netherlands and Germany.

Figure 2.5 Unemployment rate



Interestingly, people seem to be rather secure about their own position (see also figure 2.4). We see in many country reports that interviewees emphasise that they are fine, they do not change their behaviour, but all are worried, in particular about losing their job. This is particularly so for those on fixed contracts.

Bad health in old age is mentioned by many in most of the countries. Also the death of a partner was mentioned in Belgium, Slovenia. Health and the availability and affordability are of great concern as will be further explored and explained in chapter 5.

Return on investments

Some interviewees mentioned worries on the return on financial investments, but most believed the downturn would be temporary. As the Portuguese partner observed for Portugal, the richer people are the more risks and in particular risks on financial investments, interviewees mention. Moreover, considering returns on financial assets, many people explained that they had invested for the long run. As this the interviewee with an investment mortgage in the next example.

: "Interviewer: Bad return on investments?"

Man: You can say so indeed!

Woman: Our investment mortgage.

Man: Hardly anything is left.

Woman: Well only the amount we put in is still there.

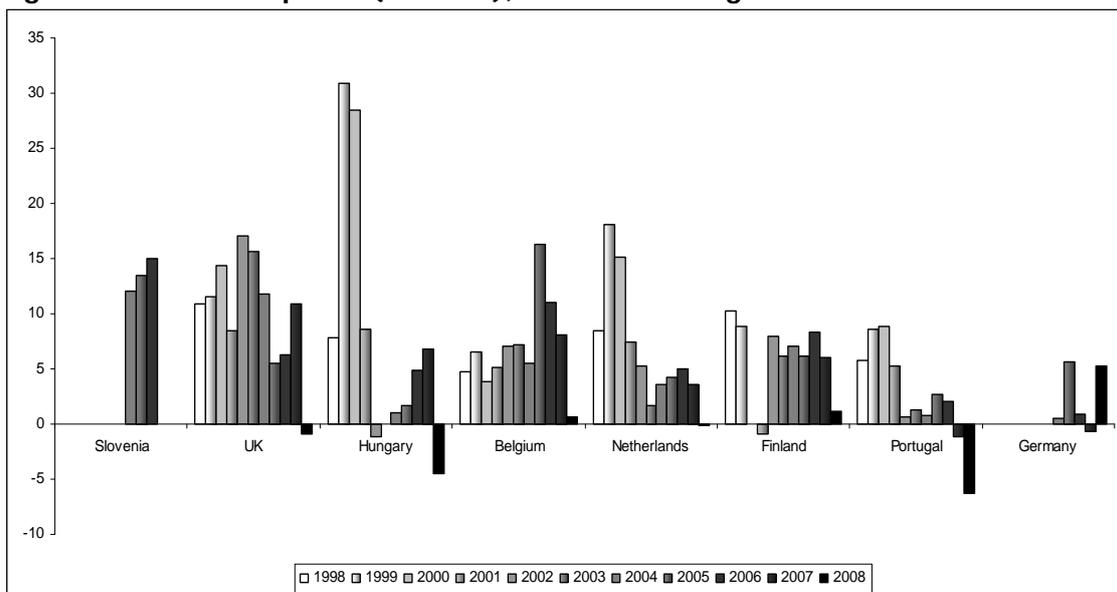
Man: No, not even.
Woman: No, you are right, less. Less, than we put in, yes....
Man: But luckily we still have 20 years to go. And it is not such a big amount of money.
Woman: No that's right, we can handle that."
 (Couple, with children, 45-55) Netherlands

Finally, people in particular the middle cohort had their worries about the pension system. The elder cohort in general felt safe, where the young cohort felt it is too early to worry. The middle groups are confronted with worsening pension conditions, but for them it seems to be late to prepare properly for that. Chapter 3 will further deal with pension strategies and pension worries

House prices

Most interviewees in all countries state not to worry about house prices. This is interesting as in a number of countries house prices are seriously under pressure as appears from figure 2.6. Interviewees are optimistic in general about longer term developments and state that house price decreases only affect people who will move. In UK interviewees stated not to be concerned about a further fall in house prices. They seem to have accepted the price falls and are optimistic about the future. Interviewees in all age groups believed that house prices would recover and that in the long term property would always be a good investment.

Figure 2.6 House prices (national), annual % change



Source: EMF, Hypostat 2008

Even in Germany a country where house prices fall in larger parts of the country and also in the suburbs of Bremen which was included in the project, people do not mention this risk spontaneously. They only reflect on it when prompted. The German researcher explain that Germany is a country of one-time buyers with basically no housing ladder and were not considering at all a sale of their house. In UK interviewees remarked that should they decide to move house then they would be able to buy more cheaply. Some emphasized the importance of location and stressed that there would always be a demand for properties in York

An exception is Germany and in particular an example in suburban regions facing falling house prices.

"I know from my circle of friends that people who live in envions and acquired a bigger house or property there in the 1960's and 1970's and who would like to abandon that, do not make it, because the revenues they could achieve are pretty minimal. And they just weigh and say: "Then we keep living here, because the house is debt-free, we know approximately what we have and where we have to do fix and repair or invest again."

(couple without children, 45-55, Germany)

Finally the burn down of the house was considered a risk by some interviewees in Belgium and Slovenia. Remarkably this risk was not mentioned in the other countries.

Banks

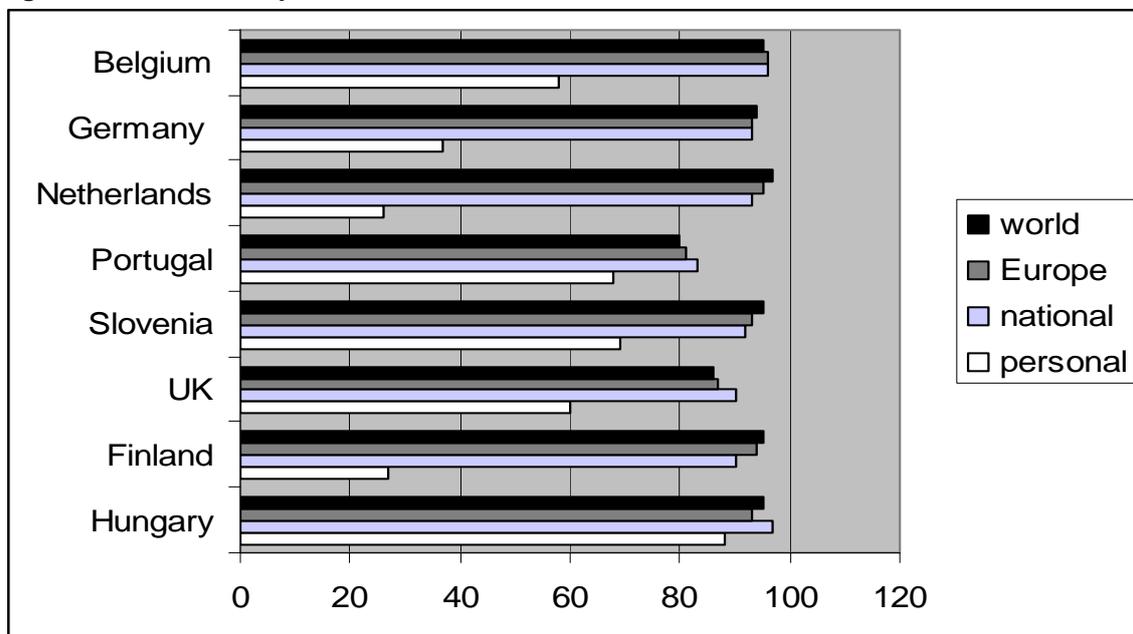
The banks are considered a risk in Belgium and the UK. In the UK this is related to the bankruptcy of banks during the financial crisis. In Belgium a deep rooted distrust against banks dates from far before the crisis.

Next to this distrust there are worries about the interest rates on savings accaounts. The current low interest rates for saving accounts were mentioned in countries including as Finland, UK, Slovenia

"The banks are the biggest risk, he. And I mean both the interest rates that are low. Because of which savings accounts are not profitable, as the banks that go bankrupt. And why should the state step in for them? What did they do with the money, that's just not right." (women, 65-75, with children) Belgium

"The banks – that has been worrying. That would have really hit us hard if we lost money. We have some cash and some TESSA going right back... We still have some saving certificates – but if we lost some of our capital that would really hit us" (UK 65-75)

Figure 2.7 The impact of the financial crisis, Eurobarometer 71



Repercussions of the Financial and economic crisis, very important + fairly important repercussions, in % of Total interviewees, February 2009

Source: Eurobarometer, Social Exclusion and poverty, 2010

2.4.2 The consequences of the financial crisis

We asked our interviewees how they responded to the consequences of the crisis and to which extent they changed their strategy to build old age security. Figure 2.7 provides an overview of the repercussions of the financial and economic crisis as reported in the Eurobarometer of 2009. The general picture is that the World, Europe and the nation are seriously hit by the crisis according to at least 80% of the interviewees. Figure 2.7 shows that for many people however no serious repercussions for the own situation were reported, about 25% of the interviewees in Finland and the Netherlands, about 35% in Germany, 60-70 in Belgium, UK, Portugal and Slovenia and almost 90% in Hungary. As in figure 2.4 there appears to be a gap between the situation in general and the personal situation. Apparently people are or feel that they have to be more positive on their personal situation.

The consequences of the crisis were heavy in Hungary and resulted in a sharp fall in GDP and the country was threatened by bankruptcy but was saved by IMF and the EU. Many people got into affordability problems. An important explanation for this is the huge amount of housing and other loans in other than the Hungarian currency. Due to the 15-25% devaluation of the forint these loans became very expensive and often unaffordable.

19 out of 30 Hungarian interviewees told they were personally hit by the crisis. They experience, income reduction, a bad business climate and lower return on investment and the financial effects of the currency crisis. Moreover, interviewees were hit by the austerity measures introduced as reaction to the crisis. 7 out of 10 interviewees from the oldest generation felt sensitive about the withdrawal of the 13th month pension. Another important effect is the inflation and in particular the effect on food prices. Many of the oldest cohort experience problems with the rising food prices.

"Of course I feel it. For example I cannot eat anything that costs a lot in the market. I have to eat cheaper and simpler food. I don't have the money to regularly buy tomatoes or green pepper.

(Childless pensioner, Hungary)

The younger cohort was suffering most from losses in voluntary pension funds. Only one Hungarian interviewee reported that she profited from the effects of the crises: due to falling house prices it was easier now for her to buy a dwelling. In Slovenia, the country hit second hardest according to figure 2,7 the picture was different. An important difference with Hungary is that Slovenia joins the Euro and experienced rather positive than negative effects from the currency changes. A case of a positive outcome of the recession was reported – concerning a loan taken out in Swiss francs and due to the fall in the referent interest rate the monthly instalment for the housing loan had decreased by 100 Euros per month.

In all other countries most people said they did not really change their behaviour. There was only one clear example in the UK, an interviewee postponed retirement because he lost money on a private pension fund. Remarkable is that in the younger generation people stress that nothing bad happened to them, they did not lose their job. In particular the older generation said they did not really change, but may be spend less and save more (Belgium, Finland, and Netherlands). Many of them stressed that they were already very economical already before the recession. Many of them in particular the older generation is proud on the fact that even before the crisis they were modest and did not spend more than necessary.

'We have always ...led such a moderate life,...., without that extreme spending and waste of money ... you know... to go to a department store and see all sorts of things and think why not buy... and then you come home and realise you have made a mistake as you see you will simply never use it ... this is a waste of money ... if people would keep this in mind, perhaps today there would be no crisis at all' (65-75 years woman, no children). Slovenia

"No, didn't change anything due to the crisis. I am always careful with my money. I have always been economical, so... (male, 65-75, with children). Belgium

"No, things will pick up eventually and we don't need to use our investments at the moment.. the credit crunch hasn't affected our behaviour, we are not big spenders and we don't go out much.
(couple, 65-75, UK)

But some state that they are more careful and spend less. They economise on going out and by quitting cable television. Some of them however told us that they spend more than before. Several interviewees emphasized that they were better off due to the low mortgage interest rates.

"Actually, I am not going abroad for vacations this year. Perhaps that is a symptom of the crisis. But on the other hand, I spend the extra money I have monthly because of the decrease in the interest rate. My behaviour is completely contrary to expectations!!
(Man, without children, 45-55) Portugal

One of the interviewees even corrects the interviewers wording when discussing the current recession

"What recession? This is merely a short downswing. We'll come through it
(with children, 65-75) Finland

An interesting German case was the interviewee that is concerned about inflation.

"Yes, I indulged myself numerous purchases, which I otherwise had not made, because I have certain worries of inflation. [...] anticipated investments in the house and in several other things, which I would have made sometime anyway, I made now
(single with children, 45-55) Germany

2.6 Conclusions

Buying a house was considered a wise decision by most interviewees, but only in Germany buying a house was explicitly mentioned as pension strategy. Renting is by many interviewees considered a waste of money. Remarkably most interviewees would recommend a young couple with an insecure income to buy. This share of interviewees was even higher than in the previous OSIS-project where we asked a similar question to the households in 2005. Although there has been a financial crisis and most countries currently cope with insecure housing market, housing is still considered a safe investment. Moreover, some considered this a good time to buy since interest rates are low and house prices have gone down. House price developments are in general not seen as a risk. In all eight countries most interviewees state that they plan to stay in the house. Moreover, there is broad agreement that home ownership is a good investment in the long run. It was emphasised by many that housing is more secure than shares. Most important risks that people perceive is loss of job, health problems and loss of the partner.

The house was in most cases financed by a mortgage. Because there is no other way or because it is fiscally attractive to have a mortgage (Netherlands, Finland, Belgium). In the former countries people intend to pay off the mortgage as soon as possible and thus build housing equity. In the latter countries the fiscal policy discourages people to build housing equity. Next to the mortgages own savings play an important role in the financing of the house, in particular in Germany. Moreover, in particular in Hungary, Slovenia and Portugal the family is of utmost important in the finance of the house. In Hungary it is almost impossible to buy a house without family help. But also in countries like the Netherlands, Belgium and Finland, the family played an important role in the finance of the house of the younger generation. Not only for buying the house, the family is considered as very important for support either financially or in kind and a safety net in case of problems.

All interviewees appeared to have their own private financial strategies or may be habits is for most of them a better word. The wealth portfolio is different over countries. Second properties play an important role in Hungary, Portugal and Slovenia, but also in Finland. Many interviewees had holiday home or investment houses. Moreover, in for example Belgium and the Netherlands in particular the younger generation considers investing in second properties as

a wise strategy. The other parts of the household portfolio appeared to vary over countries; in UK financial assets are a large part of the portfolio whereas in Belgium, Germany and the Netherlands saving is considered very important. Finally, there appeared in several countries the younger cohorts appeared to be more inclined to invest in financial assets and also second properties, where the older cohorts put more emphasis on saving.

There was a remarkable degree of confidence amongst interviewees about the security of their income from employment. The views and expectations were similar to those we found in the OSIS-project. The crisis and recession seemed to have had hardly any impact. Moreover, when households were explicitly asked about the consequences of the crisis, most of them explained that they did not change anything. In particular the older cohort, no matter in which of the eight countries, were very proud on their saving and behaving thrifty. Younger much less so and even criticise the older generation for not enjoying life. Only Hungarian interviewees personally felt the financial consequences of the recession. Important problems were the mortgages in foreign currency that became unaffordable due to the crisis.

3 Retirement Plans and Expectations

3.1 Introduction

This chapter focuses on interviewees' retirement plans and expectations. It begins with a discussion of responses to a vignette which was introduced in order to explore households' views about ways of increasing income in retirement. The chapter then goes on to explore households' thoughts about their income in old age, including their views on who should be responsible for ensuring an adequate income in old age and sources of income in old age; their financial planning for old age; and expectations about the adequacy of income in later life. Finally, the chapter discusses the timing of retirement and the impact of the economic crisis on their retirement plans.

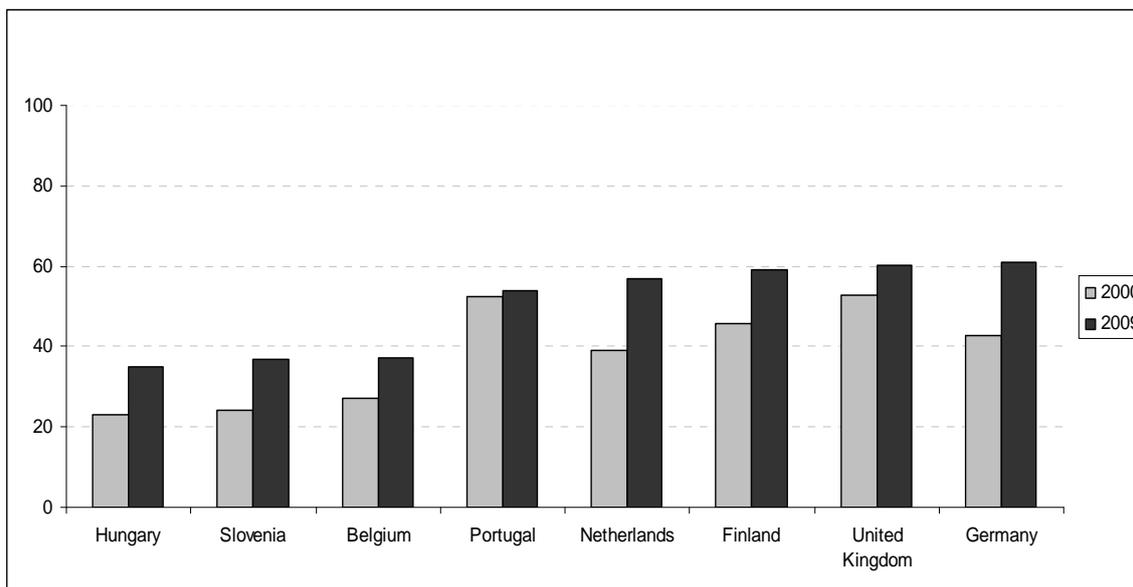
3.2 Strategies if lack of income in old age

In order to explore households' ideas about strategies to generate extra income in old age they were presented with the following vignette. Again, we were particularly interested in whether using housing equity would feature in their responses.

A couple has recently retired; they are in their late 50s and in good health. They have two children who both have families and moderate incomes. They own an average dwelling in a rural area. They are finding it more difficult to maintain their standard of living in retirement than they thought and are considering ways of increasing their income.

What are their options? What would you advise them to do? Why?

Figure 3.1 Activity rates 55 to 64 years old

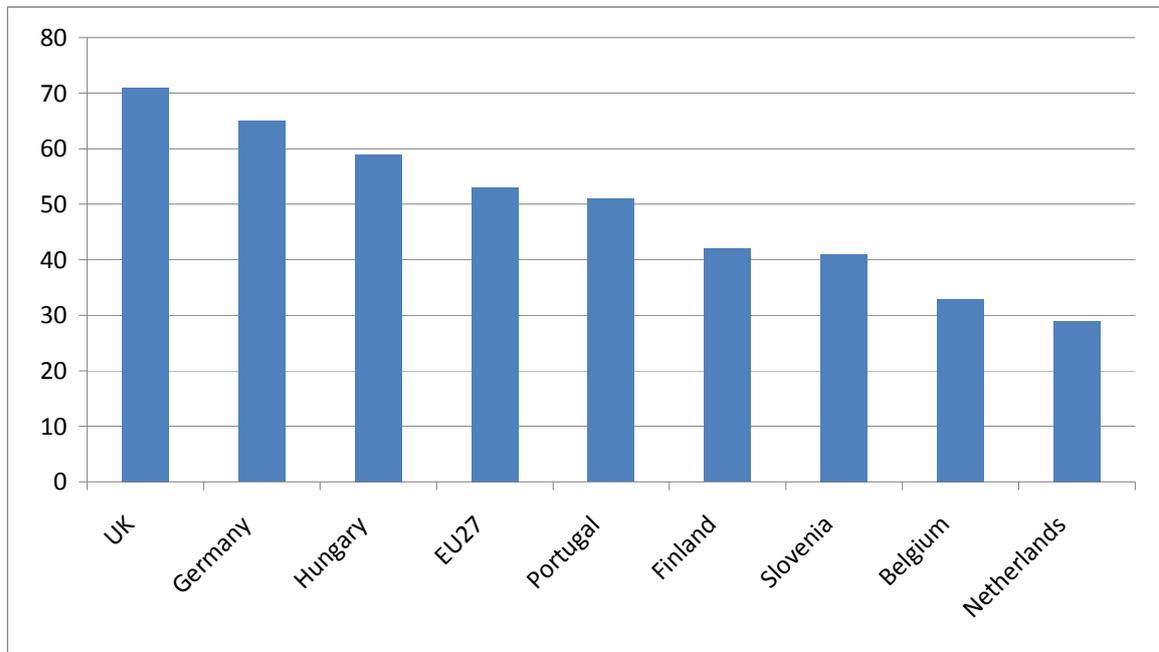


Source: Eurostat, 2010

Interviewees were asked to consider the couple's situation and the advice they would give them. Although interviewees were able to suggest a range of options and solutions, most questioned why the couple had retired, and were surprised that anyone in good health should retire early if they could not afford to do so. This appeared to reflect a change in attitude towards early retirement. On average, men and women in Europe retire from the labour force long before statutory pension age and other recent studies have suggested that overall, the opinions of Europeans on retirement timing are not in favour of increasing the age of

retirement (European Policy Brief, undated). However, as can be seen in Figure 3.1, economic activity rates amongst 55 – 64 year olds have increased in recent years.

Figure 3:2 Percentages of people who would consider seeking a job for extra income following retirement



Source: The Gallup Organization, 2008

The proposed solutions were similar in all countries. Very few people suggested that the couple might be eligible for some form of state assistance and most recommended that the couple should find paid work or start a business. Although the idea of working longer may not be popular, it does appear that the notion of working past state pension age is becoming more acceptable across Europe. Figure 3.2 presents findings from a recent Eurobarometer survey (The Gallup Organization, 2008) which found that more than half (53%) of the EU 27 population said they would consider seeking a job for extra income once they retired. As can be seen, UK interviewees were most likely to consider working post-retirement and people in the Netherlands the least.

Whilst some felt the employment options for the couple would depend on their skills and experience, others suggested that they had an opportunity to do something new and perhaps more interesting than their former jobs. A few interviewees in Hungary noted that it might not be so easy for a couple in their 50s to find work in a rural area and a number in the Netherlands believed it was generally more difficult for older people to find work. A few people in UK households had continued to work past state retirement age because their pensions had not amounted to as much as they had hoped and they, and others, felt that employers were more willing to employ older workers than in the past. In Germany, people often take a Minijob or Geringfügige Beschäftigung after retirement from their main employment and German interviewees found it difficult to understand the couple's situation. In Germany, people in receipt of a state pension can earn up to 400 Euros a month without this affecting their pensions.

In the Netherlands and Belgium, people recommended that the couple should work 'under the counter', or 'cash in hand'; that is they should not declare their earnings in order to avoid paying tax. In Finland, people suggested the couple find ways of generating income that would not be liable for tax. In many countries (Belgium, Netherlands, Finland, Portugal and Slovenia),

people suggested the couple might benefit from living in a rural area as this provided a range of opportunities for generating income. People suggested the couple could start their own tourism related business, for example running a guesthouse, a camping site or a children's farm; or growing or making their own produce to sell. Other suggestions for alternative employment included caring for grandchildren (in the Netherlands grandparents who provide childcare receive payment from the state) or for other elderly people, cleaning or providing transport services. Another suggestion was that the couple could try to become more self-sufficient.

If they live in a rural environment and they have good health, they can do some agriculture, at least in terms of vegetables: potatoes, carrots and that sort of thing. They can produce for their own consumption and save a lot of money. And breed poultry and rabbits. It is a distraction and they can get their prop from the land. Due to their age I see no other ways of getting income...unless taking care of children. If the woman is in good health, then why not?

(Portugal, 45-55)

Interviewees in all countries also raised the possibility of using the house to generate income by letting rooms or renting out the whole property and renting something cheaper themselves. Another option was to sell the property and rent in order to release equity but this was not a popular option (see Chapter 5). First (see below) the couple might want to maintain ownership of a property to leave to their children and, second, the couple could live for many more years and the equity might run out. Finally, many thought that renting was simply a waste of money. Downsizing was a more popular option, and many people suggested that the couple move to a smaller property, possibly in a cheaper area, which would be cheaper to run and maintain. A few people suggested that they move to an urban area, where they would be closer to services and facilities. In this way they could cut their travel expenditure and also be closer to services such as hospitals which they might require when they were older.

Although the property was described as 'average' in the vignette, many people appeared to assume that this had been the family home and that it was relatively large property, so that it would be possible to downsize and release sufficient equity to buy something suitable and to maintain an adequate income. However, a few interviewees in Hungary and the UK questioned whether the couple would be able to find a suitable property unless they moved to a less desirable area. Interviewees in Finland, the UK and Germany, thought there were other factors to consider before selling the property. The couple might not wish to move and/or their children might have an emotional attachment to the family home; they might need to use their housing equity in the future for welfare needs; or, as noted earlier, they might wish to retain ownership of the property in order to leave it to their children.

Interviewees also wondered whether the couple had an extravagant lifestyle and in advised that the couple look closely at their expenditure and cut down on unnecessary outgoings. A number of older interviewees in some countries felt that one had to reduce outgoings and live more simply in retirement, whilst others remarked that the couple simply had either to increase their income or live within their means as any other household had to.

They would have to search for something giving them extra income so that they could maintain their lifestyle. Or they would have to adjust better. Because all of us must adapt, constantly adapt. I think we have to adapt to the income we have and not stretch the income to the life we want...

(Portugal, 25-35)

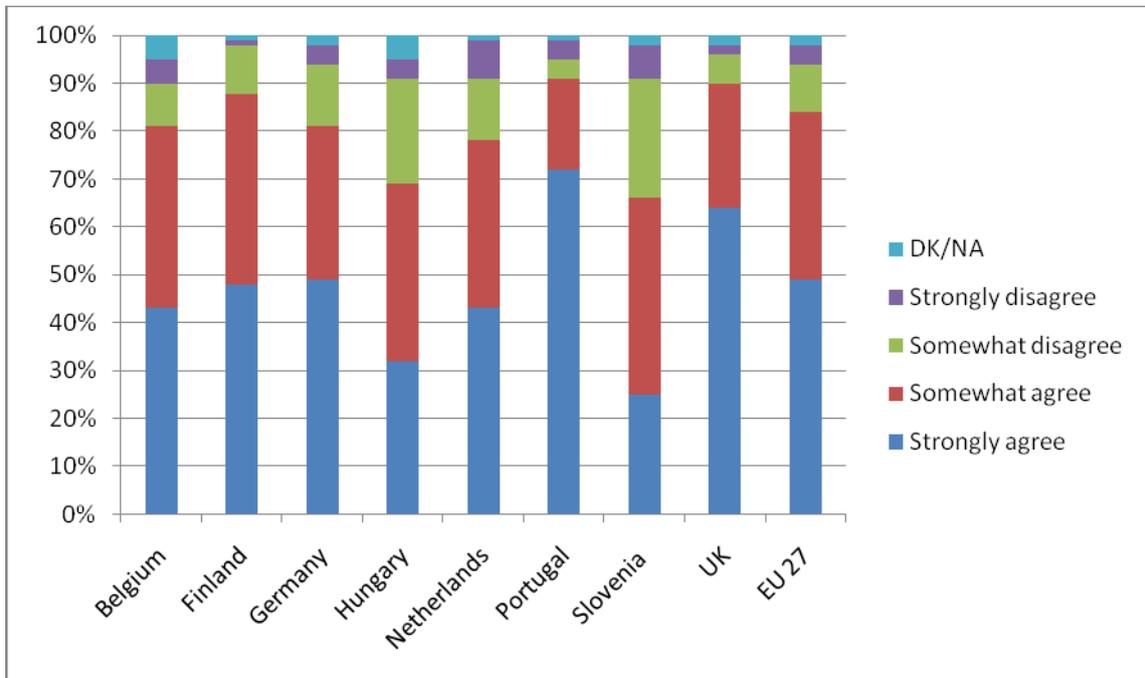
A few interviewees in Belgium, Slovenia and Hungary suggested the couple might ask their children for help although this was not a common response. A small number of interviewees in Slovenia also thought that children might help either by providing financial support or by moving in with their parents and sharing the costs of running the home. In Hungary interviewees suggested that the couple could move in with their children.

3.3 Income in old age

Who should be responsible for income in old age?

Overall, interviewees believed that whilst individuals had some responsibility for their income in old age, the state still has an important role to play. A recent survey of European Union (EU) citizens (The Gallup Organization, 2010) found that whilst most believed their government would no longer be able to pay for pensions and care for older people, the majority believed that the state must make more money available. As can be seen in Figure 3.3, interviewees in the UK and Portugal felt particularly strongly that the state should make more money available to meet the needs of the elderly, with 90% and 91% respectively, agreeing with the proposition. Interestingly, among DEMHOW interviewees those in the UK and Portugal, whilst supportive of the role of the state, often appeared to be the most pessimistic about the future role of the state and reluctantly accepted that individuals would probably have to take more responsibility in the future.

Figure 3.3 Percentage agreeing or disagreeing with the proposition: Our Government must make much more money available for pensions and care for the elderly



Source: The Gallup Organization, 2010

Interviewees believed that individuals had a responsibility to work, to save money and not to live beyond their means and to contribute to various statutory and non-statutory pension schemes. In some countries (Hungary, UK, Netherlands, Germany and Portugal) interviewees felt that the state should provide an adequate pension for those who were unable, through no fault of their own, to provide for themselves. For the most part, these interviewees felt that it was up to the individual to save if they wanted to live very comfortably in retirement but that the state should also provide a basic pension for all citizens.

Every man is the architect of his own future, if he has the adequate income [...].
(Germany, 65-75)

Older and middle aged interviewees tended to see the state as having a more central role, remarking that as they had paid taxes, and made contributions throughout their working lives then the state was responsible for providing them with a pension. Younger people (and some older people) believed that the state should be responsible but explained that it was

increasingly unlikely that the state would be able to provide and that individuals would have to take more responsibility in the future.

I think that responsibility is both from the State and from the persons themselves that should save in some funds. It is just that we got that idea of the public pension for so many years. People are used to that. When I started working, twenty six years ago, putting money aside in private schemes was not an issue. No one thought of that when I started working. There has been a bad management of public money, of social security. And people live longer and longer. All of that contributes for the state of affairs. Thus there is the need to pay longer for the public pension.

(Portugal, 45-55)

A number of interviewees said the state had a role in educating and informing people about pensions, the need to save, the different ways of saving for a pension, and the amount they would receive, as people found the existing systems in their respective countries confusing. Further, interviewees in some countries felt that the state should take more responsibility for occupational and private pension provision in order to protect individuals whose pension funds failed to perform well. A number of UK interviewees explained that their private pension fund had not performed as well as they had hoped and a couple had to continue to work past state pension age. On the other hand, some German interviewees thought that they would be better off when they came to retire if they had saved in private pension scheme rather than via the compulsory public pension scheme.

Interviewees differed in their views about the responsibility of employers for their income in old age. Younger interviewees in Belgium believed employers had a role but felt that the state should regulate company pension schemes and provide a guarantee in case the company failed. There were particular concerns about the collapse of company pension schemes in the UK and the limited role that employers could play in providing occupational pensions compared with the past. Although many interviewees felt that, ideally, employers should take some responsibility for their employee's retirement, realistically, the contribution that employers could make was increasingly limited as huge pension deficits made companies uncompetitive.

This is a difficult one because I know how hard it is – you hear about it in the news.... I do feel that they should provide for their employees but they don't seem to be doing very well these days do they?

(Couple, 65+, UK)

Very few people believed that the family (apart from a partner or spouse) had any responsibility for their income in old age although people in most countries believed that their wider family would provide financial help or help in kind (see Chapter 2) if they were able to.

Planning and sources of income in old age

As noted in Chapter 2, the main sources of income for older interviewees were public redistributive pensions (described in different terms such as state, statutory, municipal or legal pensions), occupational and private pensions, in some cases supplemented by various savings, investments, rental income from second properties and, in a few cases earnings from employment. In most countries the public redistributive pension was still considered an important source of income by older interviewees although as noted in Chapter 2, interviewees in some countries such as the UK said that the amount they received was low. Interviewees in the two younger age cohorts were asked what sources of income they expected to rely on in older age. As noted earlier, it was evident that younger interviewees overall did not expect the public pension to be as important a source of income in the future.

I was always aware of it that I preferably blank out the public payments totally and say: "Okay, I build it independently..." If the state pays you anything else, it will be a bonus and therefore something has changed. I say I don't count on any benefits from the state anymore. Or so minimal, that you shouldn't...yeah, include them.

(Germany, 25-35)

"It will be the money of the PPR (private pension) and the State pension I will be entitled to someday, for the years of contribution. Eventually I mean, if I am entitled to it. There are no certainties, right? If we manage to keep the houses we have, another source of income could come from renting them. But again, there are no certainties."

(Portugal, 25-35)

Younger interviewees expected that saving in personal pension schemes would become increasingly important, as well as building up savings and assets themselves, for instance in a bank account, by investments in stocks, shares, mutual funds, or by investing in housing. Additionally, working post-retirement appeared to be a common feature in retirement plans.

In all countries, the youngest age-group mentioned the broadest range of potential sources of income. They expected their incomes to grow and expected to start saving and building up assets in the future. The middle age-group was generally more diverse. Some had started saving for retirement, others had not. Those on higher incomes were often more successful in saving than those on lower. Additionally, individuals differed and some appeared to have a more long term focus than others.

Honestly, I never thought about it. My life has been so distressed and so filled-up with problems that I have never thought about it. I hear something on TV and I have thought about saving some money. Perhaps putting 25 Euros in the bank every month - it crossed my mind. I have not really thought about it but it crossed my mind. Something not filling my everyday life you know.

(Portugal, 25-35)

In response to the changes in the pension system, many in the middle-age group were concerned that they did not have enough time to save and make extra provision for retirement whereas the younger interviewees were fairly confident that they could build savings over the longer term.

Public redistributive pension

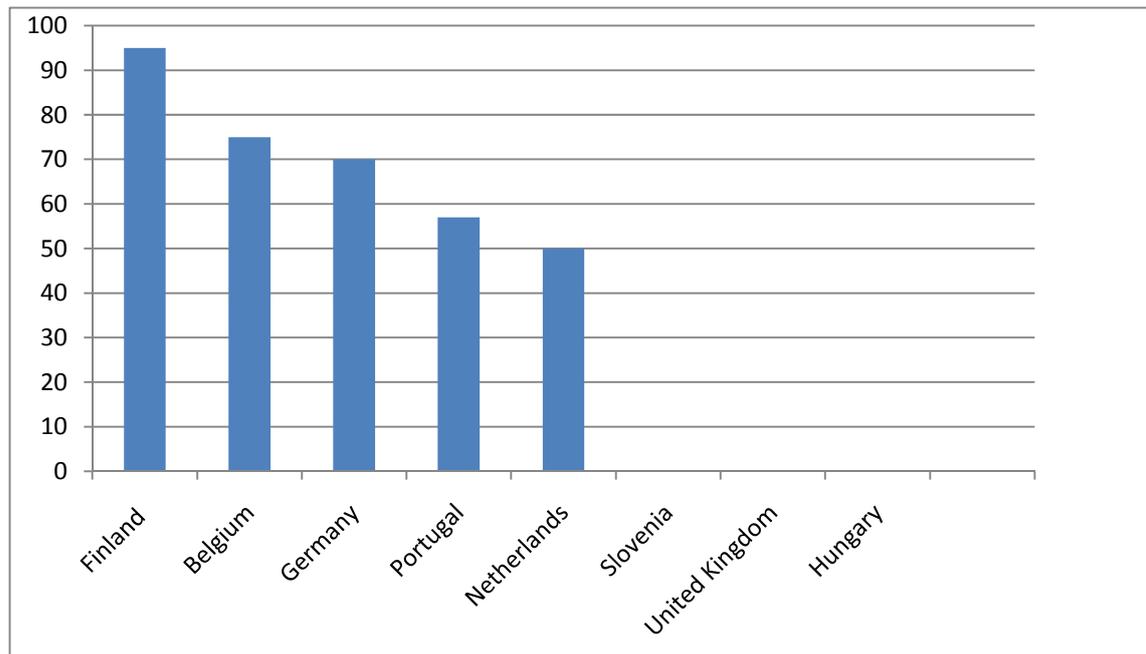
Although across countries, younger interviewees tended to have less confidence in public pensions than older interviewees, there were some differences between the countries. In Belgium, Portugal, Finland, Germany and Slovenia most of the non-retired thought the public pension would be the most important source of income. In these countries public pensions are earnings-related and they account for a substantial part of the total amount of pension incomes (see Figure 3.4). Interestingly, although many of the younger German interviewees said they thought the state pension would be an important source of income when they came to retire they also appeared to distrust the state pension system.

In Hungary, the UK and the Netherlands the youngest interviewees seemed to have lower expectations of the public pension. Interviewees remarked that this would probably be the least important source of income or they did not count on it at all. In Hungary, this is partly due to the often changing conditions with regard to how the pension is calculated or raised which make the pension system unreliable. A further factor is the general perception that the state pension alone – especially for a single person household – is often not sufficient to maintain an adequate living standard.

But currently the whole system is so unstable and they say many new things, and many things will change, so I think by the time I will become a pensioner there will be no pension any more.

(Hungary, 25-35)

Figure 3.4 Coverage public redistributive pension of total pension incomes



NB Portugal * of total pension assets
Source: Country policy reports

Another important factor in Hungary is tax evasion among the self-employed. Approximately a quarter of the workforce is self-employed and according to some estimates most (90%) pay taxes only after the minimal wage. This generates an imbalance in the current state pension scheme, which is a pay-as-you-go scheme, but even more importantly creates a situation, where these people will be eligible for a very low pension (both state and private), and will have to have other forms of savings to supplement their income. (Hungary policy report). Part of the problem in the current system is that even those who pay their full pension contribution cannot expect to receive a very generous amount.

As noted above, in the UK the youngest interviewees hardly mentioned the public pension as a source of income as they expected this to be reduced over time. In comparison with the other countries, interviewees in the UK were perhaps more aware of the need to make their own provision both because of relatively low replacement rates historically and because of the lack of confidence in state pensions over the longer term.

In the Netherlands the public pension is a flat rate universal scheme, which means that all retirees, regardless their level of income, receive the same amount of public pension. This is different than in the other countries, where the public pension is (partly) earnings-related. In the Netherlands, the occupational pension scheme and the public pension together aim at a gross replacement rate of 70 percent of the lifetime average income. The higher people's level of income, the more important the occupational pension becomes as a source of income.

Mandatory personal pension saving schemes

In the Netherlands, most interviewees expected their occupational pension to be the most important source of income. The occupational pension is mandatory for Dutch employees: most of them participate in these private fund based pensions (the Netherlands policy report) Hence, the employed interviewees did not need to have an active financial strategy to compensate for the relatively low public redistributive pension as they were automatically enrolled in these schemes. Together with the public pension they provide a relatively high pension income if compared to people's income from work.

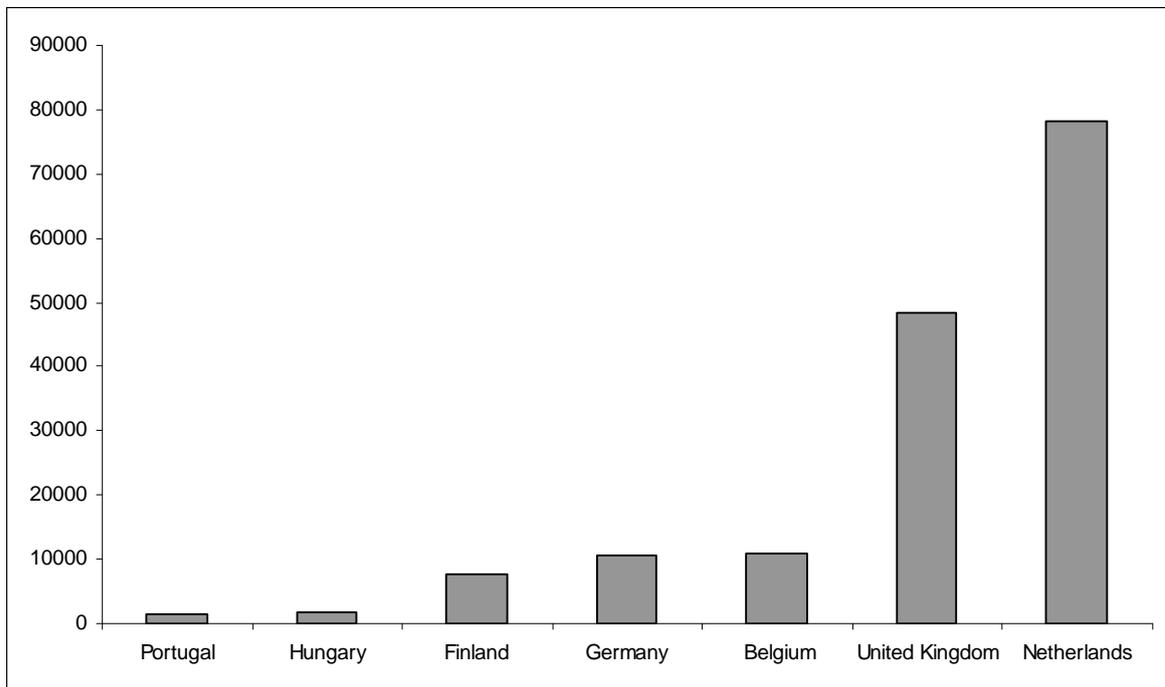
In Hungary, interviewees sometimes mentioned the mandatory fund-based schemes as potential source of income, but they did not trust them. The fund based pensions were introduced after the pension reform of 1997. Participation is obligatory for all employees. Further, these fund-based schemes are defined contribution schemes. This means that investment risks fall on the individual and not the financial institution. Recently, due to the financial crisis, the performance of these funds had been very poor, which might partly explain the distrust among interviewees.

Voluntary personal pension schemes

In the UK, interviewees often expected the occupational pensions to be the most important source of income. Approximately two-thirds of the workforce are members of occupational schemes. In contrast to the work-related schemes in the Netherlands, in the UK participation is voluntary³. It is possible to withdraw from these when one changes job, and to cash in the savings, something that a number of UK interviewees had done and now regretted as they realised it would have been better to have left the money in a pension fund rather than spend it. Other UK interviewees expressed mistrust in occupational pensions as some companies had gone bankrupt, and pension funds had been lost.

In Slovenia the occupational pension was a rather new way to save for retirement. For the oldest age-group it hardly played a role as a source of income, but for the middle age-group and even more for the youngest this was expected to become an important source of income in retirement.

Figure 3.5 Money in 2nd pillar pension market – pension funds, book reserves, and insurance companies € – divided by number of active people in countries’ workforce 2007



Source: EFRP 2010, Eurostat 2010

³ From 2012 it is planned that all eligible workers, who are not already in a workplace scheme, will be automatically enrolled into either their employers’ pension scheme or a new scheme known as a ‘personal account scheme’. To encourage participation, employees’ pension contributions will be supplemented by contributions from employers and tax relief. The scheme will aim to benefit employees on median to low incomes and will also include measures to Source: The Gallup Organization (2010)

Figure 3.5 shows the relative importance of the occupational pensions. The capital that is stored in pension funds, book reserves and insurance companies is divided by the number of active people in the workforce. In the Netherlands and the UK these funds clearly are more meaningful than in the other countries.

In Belgium, Finland, Germany and Portugal interviewees mentioned voluntary supplementary pension schemes as an expected source of income. Interviewees indicated that fiscal advantages made saving in these schemes very attractive. In Finland, additionally interviewees explained that it was attractive saving because the amount was so small that one hardly noticed. Some interviewees in Finland however appeared 'angry opponents' of these schemes. They did not want to put their savings in the hands of the private funds, but preferred to manage and control their pension savings themselves (see chapter 6).

[S]ometimes when you go into the bank they recommend you invest fifty bucks, they want you to start investing, and for me it feels somewhat pointless since retirement age is so far in the future. I'd rather put the fifty bucks into my own housing, in a way it's a form of investing too. I mean I wouldn't know if I'd ever even get the money. It feels so distant that I don't even bother to think about it.

(Finland, couple with children 25-35,)

In Portugal, it was mainly interviewees with children who participated in the voluntary pension saving schemes. Those without children imagined they would use their housing equity to pay for care, or to supplement their pension income. In the Netherlands, some interviewees used annuities or insurances to save for retirement. Mostly these were self-employed people.

As noted above, in Hungary many self-employed people who chose to evade taxes would be eligible for very little pension yet only a few said they contributed to the voluntary pension savings or other amassed savings in any other form. One reason for avoiding the voluntary pension schemes is that the fiscal advantages of schemes – such as tax deductions - were often short-lived which makes investment in such schemes uncertain and unattractive. Further, the financial crisis had hit these funds hard and undermined their reputation as safe saving schemes. Another reason why the self-employed interviewees did not use the voluntary pension saving schemes was because they preferred to invest any spare capital in their businesses.

Privately managed savings and assets

Another potential source of income mentioned by interviewees in most countries was personal savings. These were most often regarded as a nest-egg in old age for unexpected occurrences in old age. However, these savings and assets were more important and regarded as potential source of income for interviewees who strongly distrusted the public pension and personal pension savings schemes.

"Being realistic, I can only count on the money from the State pension that will not be 100% as it was ten years ago. I disbelieve public pensions, as well as private ones. I am very pessimistic regarding that. We will have to try and save some money."

(Portugal, 45-55)

Not all interviewees had savings, in many cases, especially among the younger interviewees and lower income households, this was because they could not afford to do save but in some cases it appeared that people did not think about planning or simply did not do so. In general the youngest interviewees thought that they would start saving for retirement in the future. They expected that their incomes would increase and currently they had other financial priorities, such as their families, their housing costs, and the costs of starting up a business. In Finland, for example, some interviewees thought that once they had repaid their debts, then they could start saving for retirement. In the UK, a few interviewees stated they found it very difficult to find a balance between saving for the future and enjoying life now. Self-employed

interviewees in the youngest cohort in Hungary also preferred to postpone planning for retirement and they chose to evade taxes in order to increase their disposable income in the short-term rather than worrying about the longer term. However, people in the middle cohort, with enough income, have shown a preference to create savings.

In Belgium, Slovenia and the UK, some interviewees regretted not saving more in the past. Interviewees in Belgium, Finland, Germany, the Netherlands, Slovenia and the UK, also felt that they had been badly advised or had made the wrong choice with respect to their investments in stocks and shares, or mutual funds.

Second properties

Next, investment in real estate appeared a popular potential way to build up financial means and financial security for old age among the youngest interviewees. In all countries, except (rather surprisingly, but in line with our findings on ownership of second properties in chapter 2) the UK, interviewees said they would like to invest in a second property, whilst others expected to inherit properties. This would provide a rental income to supplement their pension and, if large sums of money were required, then the property could be sold.

"We plan to, in retirement, live on the management of the patrimony we have. We have controlled things so far and it is likely that our pensions are enough to live comfortably off. Besides we are counting on inheriting some houses that will increase our income. Thus, we are not that worried."

(Portugal, 45-55)

A number of households in most countries already owned investment properties although in Slovenia, Germany and the Netherlands, these tended to be the more affluent interviewees or those from affluent families.

Using the home as a source of income

Some interviewees in all countries regarded their home as another potential source of income. This was not always a spontaneous response, but was acknowledged after prompting by the interviewer. In Finland, Germany, Slovenia and the UK, younger interviewees were more likely to envisage the home as a source of income than older ones. In the Netherlands, the self-employed – who needed to have a more extensive private pension saving strategy than the employees – regarded their home as a particularly important potential source of income in retirement.

In Hungary and Portugal it was mostly the interviewees without children who regarded the owner-occupied dwelling as a valuable potential source of income as they had no need to leave the dwelling as a bequest.

Interestingly, if asked what interviewees would have done differently with respect to their financial planning, looking back: in Belgium, Finland, Germany, the Netherlands, Slovenia and the UK, some interviewees regretted that they had not invested more or earlier in an owner-occupied dwelling. In Finland and Germany it was stated that the financial crisis had shown that housing is a good and stable investment, much more so than investments on for instance the stock market.

To me that [the financial crisis] shows somehow that maybe especially real estate is not such a bad investment. Or inflation, many are talking about inflation; that's even rather positive concerning the mortgages.

(Germany, 25-35)

Man: Well, maybe, if I would have known what I know now, I would not have invested my money in stocks. I would have bought a house ten times more expensive than this one, twenty years ago. Because since then, it overturned 3 times! If I would have done that, I could stop working now. But yeah, you don't know these things beforehand.

(Netherlands, 45-55)

The role of housing equity in old age is discussed more extensively in Chapter 6.

Family and inheritance

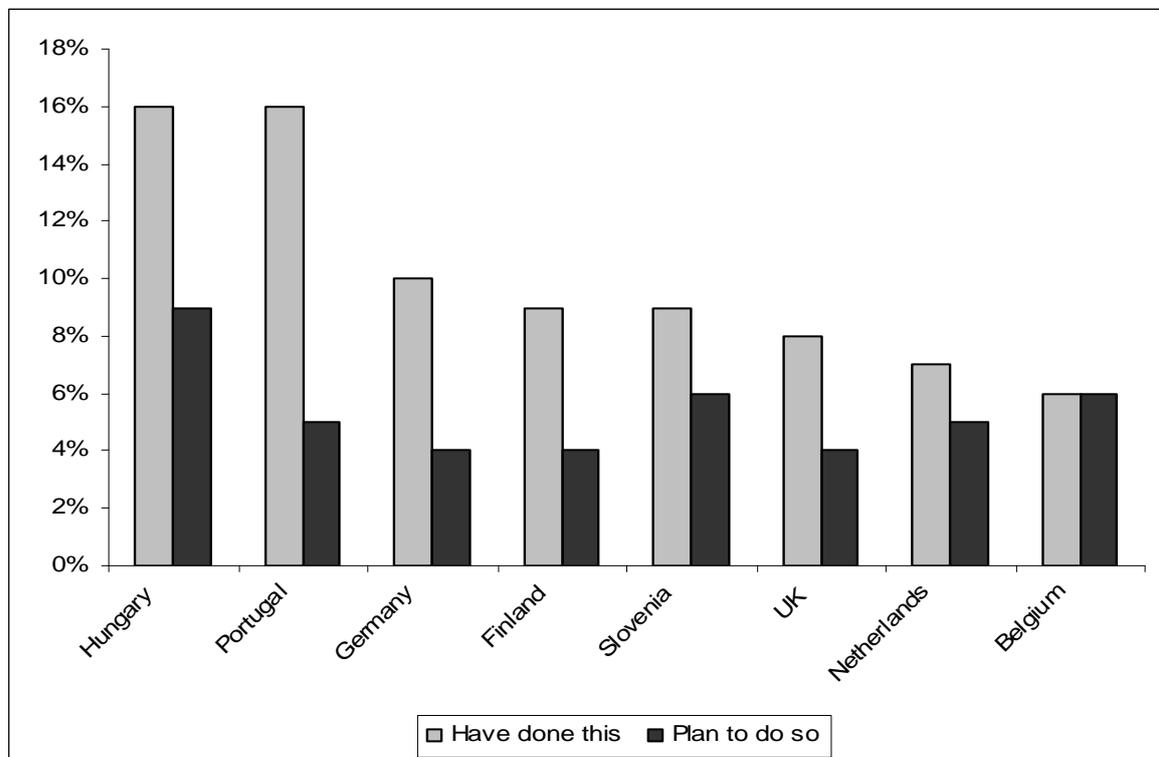
Finally, in Hungary and to a lesser extent in Slovenia, interviewees stated that help of the family might be important in old age. Interestingly, in Finland, Germany, Hungary and the Netherlands, inherited capital appeared to add substantially to financial well-being in old age. In Hungary some of the oldest group had inherited second properties and the rental income from these properties gave them greater security in retirement. In Finland and the Netherlands, some of the youngest group thought that the inheritance would add to their pension income. Additionally, in the Netherlands, some of the middle age-group who had not managed to build up some private savings was not too concerned as they expected to receive a substantial inheritance in the future.

This is an interesting finding. In literature it is often suggested that inheritance becomes less important, because the children are established households and are financially independent. However, if pension systems change considerably, and households have to save more themselves, this inheritance could become crucially important for those who did not succeed to save for their pension.

Working post retirement age

In addition to the financial plans and saving strategies outlined above, interviewees in Finland Hungary, the Netherlands, Portugal, Slovenia, and the UK mentioned the possibility of working post retirement age because they thought they would need the extra income.

Figure 3.6 Working post retirement age – percentage of retired people who have, or who plan to, seek/sought a job for extra income



Source: The Gallup Organization, 2008

I cannot say anything else, I will live as long as I can work and support myself. Without being melodramatic I hope that I will have enough self control to finish it; when it becomes a disgrace, because you are afraid of a disgraceful life...I think that I can work even at 70 or 80, I have known carpenters, who have done so.
(Hungary, 45-55)

A few thought they would probably want to carry on working because they enjoyed their jobs. Most often these interviewees were self-employed or professionals, whilst others thought they might become self-employed post retirement age:

[...] around me in the engineering world: once people retire, the first thing they do is start as a freelancer the next day and work for double the salary. (...) I see myself like that. When I become 65, I cannot imagine to completely stop working.
(Netherlands, 25-35)

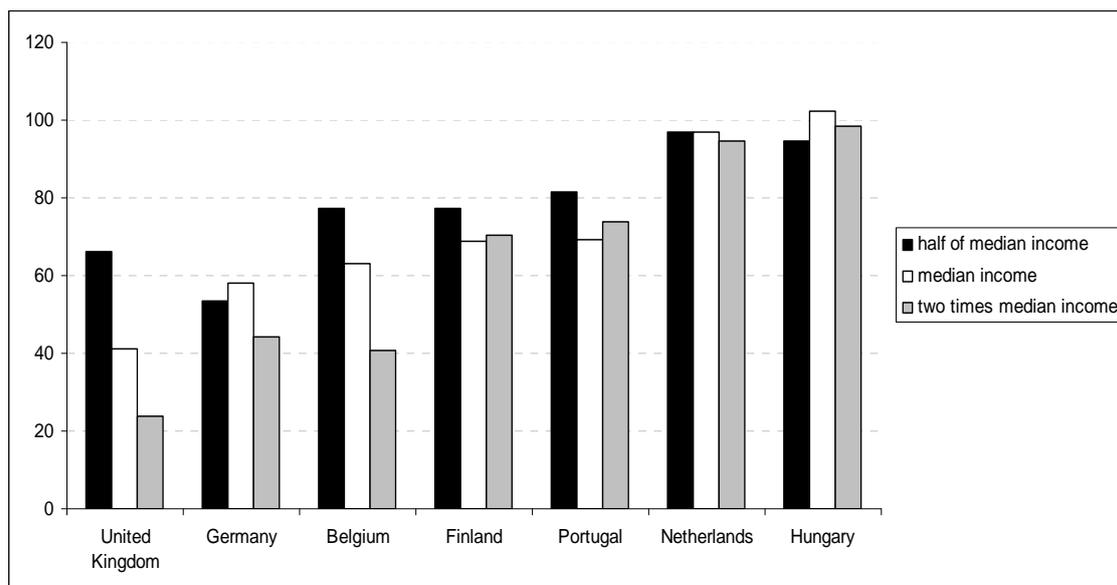
Eventually, if I am in good health, I may continue working even after retiring. This issue of a retirement age at 65 is for employees. For those who work for themselves, it is normal to continue.
(Portugal, 25-35)

Further, perhaps not surprisingly, interviewees in the youngest cohort appeared to be the most enthusiastic about working in older age. As seen in the responses to the vignette and Figure 3.6, it appears that working post-retirement age is a common (if not popular) strategy for increasing income in older age.

3.3 Sufficiency of income in retirement

As noted earlier, many interviewees of all ages had doubts about the future of state pension systems in their respective countries. The current net replacement rates for different income groups, based on mandatory pensions, in the eight countries, are set out in Figure 3.7 below. Mandatory pensions include the public redistributive pension, but also other mandatory personal or occupational pension saving schemes (see Hegedüs *et al.*, 2010 for more details on the pension systems in each country). In the UK, the net replacement rate for the median income is the lowest among the eight countries.

Figure 3.7 Net replacement rates for different income levels



Source: OECD, 2007

It should be noted that although the net replacement rate is high in Hungary, these figures may not represent the true replacement rates. Many Hungarians are tax evaders and as such it is not their real income that is represented in the statistics. It will be seen that in fact, households in Hungary are the least confident about whether they will receive sufficient income in their old age to live in dignity.

The oldest interviewees were asked whether they thought they had sufficient income to cover their expenses. Despite the substantial differences in net replacement rates between the eight countries demonstrated in Figure 3.7, in all countries the majority of oldest interviewees thought they had sufficient income.

As noted above, in most countries few older interviewees were entirely dependent on any one source of income and state pensions were often supplemented with other sources. Nevertheless, many interviewees had experienced a substantial drop in income following retirement. For example, in Slovenia some interviewees estimated their incomes had dropped by 30 to 50 percent when they retired. In contrast, in the Netherlands, the income had remained approximately the same. In both countries households thought they had sufficient income. In Finland it was explained that both interviewees with lower and higher incomes had stated to have sufficient; however, the ones with the lower incomes had to stretch their budget considerably, whereas the ones with the higher incomes could rather easily manage with their pension incomes in combination with reduced expenses. Apparently, people have a tendency to be optimistic and make the best of the actual situation.

In most countries the oldest interviewees explained that their pension income was sufficient because their expenses had gone down since they retired.

I don't think we do too badly at all...I am sure we are on less but you really do spend less than when you are in work, I really don't feel any worse off...we are not better off but I feel more relaxed about it...I think we worried about retiring and not having enough money but now we are retired and we can manage without any hardship, it is great...we have enough to meet our outgoings – absolutely...
(UK, 65-75)

Taken into consideration that I have always been poor in the true sense of the word, I have to say that oddly I have never had it so easy and financially secure like now as a pensioner
(Hungary, 65-75)

In all countries, older interviewees emphasised the importance of living modestly, of not living extravagantly (for example, going to restaurants or taking expensive holidays) and economising on travel. In some cases it seemed that the oldest interviewees took some pride in being thrifty and careful with their money. Those with children often mentioned that the children left home and hence, the expenses were considerably lower. Also work-related expenses, for example, on meals, clothes and travelling to and from work had been reduced. And finally, most interviewees⁴ had paid off their debts by retirement age. This was seen as particularly important by Finnish interviewees who did not think it sensible to retire until one had paid all outstanding debts. A few Finns and some UK households actually said that they were now able to save more than they did during their working lives.

The youngest and middle age-group households were asked whether they expected to receive sufficient pension income in retirement; overall they were not very optimistic.

⁴ In the Netherlands it is quite usual for households to have mortgages post-retirement. Mortgagees benefit from generous tax allowances.

I would like to think we will have enough, to feed and clothe ourselves, and go out sometimes. But no, I don't think it'll be what we dreamt it would be. I don't think it'll be what my Dad had – he had a huge pension from the railways. It won't be like that. It'll be enough, but nothing more).
 (UK, 45-55)

I. Do you think you will have a sufficient income in your old age?

R: Maybe, hopefully, I don't know really.

I: Why so?

R: It is these times, so you don't know whether it will be or not; but I hope there will be... solution. So the crisis will pass and there will be jobs for young families, and that the required number of years of employment would be ... extended.

(Slovenia, 45-55 years)

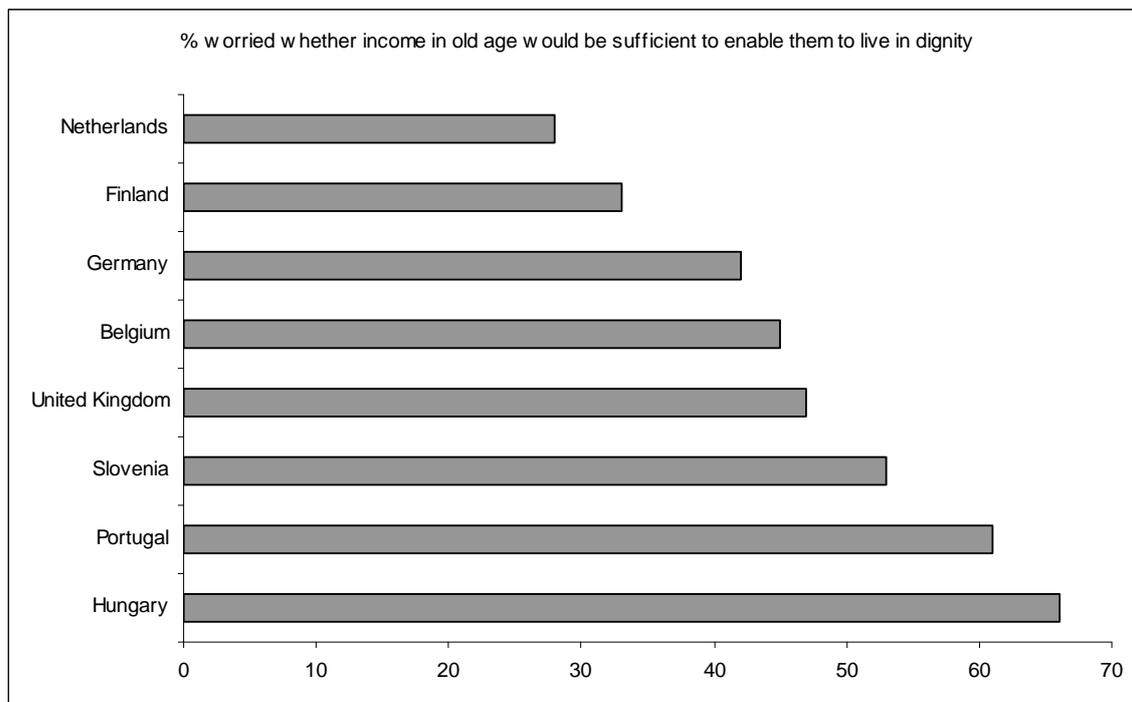
However, there were differences between the countries. Figure 4.3 presents findings from a Eurobarometer survey which shows the extent to which non-retired people are worried about their income in old age. Here it can be seen that people are most worried in Hungary, and least in the Netherlands.

In the Netherlands, the non-retired interviewees were generally relatively optimistic. Despite the policy changes, they did expect to receive sufficient pension income. The mandatory occupational pension schemes are an important pension pillar which is fund-based and hence not directly affected by the demographic changes. Dutch interviewees appeared to rely on them for a large part.

I assume that if I can keep on working and still have a good career, that there will be sufficient money in the funds to fulfil my needs. And as an academic I also hope to earn well in future.

(Netherlands, 25-35)

Figure 3.8 Worries about sufficiency of income in retirement



Source: The Gallup Organization, 2009

Only few Dutch interviewees mentioned the impact of the economic crisis on the occupational pension funds; the majority did not notice or thought this would only be a temporary state of affairs. Further, the youngest age-group especially seemed very optimistic about their future incomes and their ability to save and invest in a later phase in their life course.

In Germany, Finland, and Belgium, interviewees were worried about the consequences of changes in the pension system. The non-retired in these three countries envisaged that the income from the statutory pension would be lower than for current retirees, but probably sufficient to have a reasonable living standard. The Finnish interviewees believed that as long as they could stay in employment then they would be able to build a reasonable pension. If not, then one option would be to continue to work past the state pension age. In Belgium, those employed in the civil service were confident about having sufficient pension income, whereas the others have doubts. This is caused by the different public pension saving schemes for employees, self-employed and statutory civil servants. The latter are typically best-off, the self-employed least.

In the UK, interviewees in the youngest group were also rather optimistic about their own abilities to save for retirement (although as seen above, not about the future role of the state pension). They had aspirations for the future and thought they would manage. The middle age-group had mixed views. Some felt they had not saved enough, or some had cashed their occupational pension savings and now – as retirement was approaching – the lack of pension savings became more significant.

Interviewees in Hungary, Slovenia, and Portugal were the most pessimistic. Reforms were likely to make supplementary pension savings necessary; however, in all these three countries part of the interviewees indicated they were unable to respond by saving more. They seemed to feel less in control than in other countries; or at least they expressed greater worries.

3.4 The impact of policy changes on retirement planning

Expectations about sufficiency seemed in most countries more linked to recent, forthcoming and potential changes in the pension system, than to the current net replacement rates. Interestingly, interviewees' most typical responses to changes in the pension system were not to save more but to 'wait and see'.

*"I don't think that is wise to follow the government now. I think that certainly for me it is better to wait. I think they will change their mind many times over. [laughs] No, but the only thing I know for certain is that I will have to work longer and will not be able to stop at 55.
(Belgium, 25-35)*

In Finland and Germany interviewees mentioned that changes make planning more difficult. This became clear from the fact that some interviewees had saved extra to retire early, but currently as a result of the changes, they were not able to retire early after all. Hence, policy changes cause the feeling of not being in control, and apparently trigger a postponement of decisions to adjust the financial strategy.

In Germany some interviewees argued that it was a difficult decision to already start participating in the newly introduced voluntary personal pension saving scheme, because what would they do if a better alternative would be offered and all their savings would be already in the first?

*I: Do you think about your retirement? What are you thinking about?
W: In the past I wondered a lot about that and meanwhile I've considered that this is so hard to plan that I want to try to think less about it; because I believe it's not good to try to plan that in every detail. I believe you burden yourself with it, too. There are so many factors you can't influence, till then there will be so many other instruments and I don't know what else.
(Germany, 25-35)*

However, interviewees in some countries had responded to policy changes. For example, in Belgium, Germany, and Portugal, interviewees mentioned they had started saving in schemes that had tax advantages.

3.5 Timing of retirement

For the most part, interviewees in the older cohort had retired at the formal retirement age⁵. A few interviewees in all countries had retired early but this was more common in Belgium, the Netherlands and Hungary. The most common reasons for retiring early were health problems (not mentioned in the UK) and voluntary redundancy (not mentioned in Slovenia and Portugal).

In Hungary, the UK and also in Germany, a few interviewees within the oldest age-group were still working, both part time and full time. Working beyond retirement age was most common in Hungary where people found it difficult to manage on their pension income alone and where it was regarded as normal to continue to work, as long as one was healthy. In the UK, some older working interviewees worked beyond the retirement age, so that they would receive a higher pension or lump-sum at a later date. A few worked because they could not afford to retire as their private or occupational pension was insufficient. In Germany, older interviewees received their pension income and additionally worked as self-employed. They seemed to enjoy their work, they felt useful and, at the same time, they appeared to appreciate the extra money as the income of a retiree is in most countries substantially lower than during working life.

In general, younger interviewees expected to retire later than interviewees in the older cohort had. In part this was due to changes in the state retirement age and other pension policies which encourage individuals to work longer (see Table 3.1) and uncertainty about how much of a pension they would be eligible for and, hence, whether they could afford to retire. One respondent in Belgium (where there are no current plans to raise the retirement age) expressed her concern.

I would like to quit working at 60 but I don't know if that is possible. I have to look that up. I am going to ask how much my pension will be if I quit at 60. If it is doable to get by with that amount of money then I will quit. If not then I will probably be forced to work until 65.
(Belgium, 45-55)

The difference between the youngest and middle age-group, is that the youngest were less concerned. Retirement was still far away, there seemed to be sufficient time to arrange something, to save extra or to make investments. Additionally, the youngest seemed more optimistic about the possibility to continue working in old age. In Finland, Hungary, the Netherlands, Portugal and the UK they assumed that they would be able to work beyond the retirement age. In sum, the youngest group felt in control, due to the time span that is left to take private measures, and because they thought they could continue working. Health problems and redundancy are not within the visions of the youngest.

The middle age-group was closer to retirement and most concerned (and often unhappy) about policy changes, in particular the increasing retirement age. In general they planned to adjust to policy changes. For instance in Belgium and Finland interviewees said they intended to continue to work until they were eligible for the maximum amount of pension income. In both countries due to policy changes, early retirement is penalised through a relatively lower pension income. Similar policies have also been introduced in Portugal where, overall, people have tended to retire later in recent years. Nevertheless, some Portuguese interviewees said that they would still like to retire early but recognised that they would have to make their own provision and/or find further employment.

⁵ The official retirement age differs from country to country (see Table 4.1) but in general, is the age at which individuals become eligible for the state, legal, municipal or public pension. Some respondents became eligible for occupational pensions at a younger age and were therefore able to retire earlier.

If I can retire early even with a penalisation, I will do it. Penalised yes but not taking that any longer! I am fed up with that! And besides, once out one can always do something.
(Portugal, 45-55)

In the Netherlands, the UK and Belgium interviewees in the middle age-group stated that they hoped to gradually reduce their working hours as they approached retirement age although some UK interviewees expected to continue working beyond the state pension age. As noted earlier, some said they would continue to work because they enjoy working whilst others explained they would have no other option as their pension savings were insufficient.

Self-employed interviewees in Finland, Hungary and the Netherlands also thought they would continue to work. The most important reason seemed that they were passionate about their work. This certainly appeared to be the case in Finland where the self-employed build up as much pension savings as employees, since this is compulsory for everyone with earnings. In Hungary, however there is for many also a clear financial necessity to continue working. Those who evade taxes have a higher disposable income during their working lives; however, their pension income will be substantially lower than that of employees.

Table 3.1 Pension policies in eight countries that impact on the timing of retirement

	Current retirement age	Retirement age up		Policies to encourage labour participation elderly
		Change in last 10 years?	Plans for future?	
Belgium	65	Yes	no	Yes, bonus if work longer
Finland	Between 62 and 68 Early retirement is possible at the age 62 with benefit reduction (0.6 % per month) until the age of 63.	Yes	Yes, the government's proposal to raise the minimum age of full pension from 63 to 65 is under discussion	Yes, accrual rate in last year's working life higher than earlier years – early retirement has serious impact on height pension income
Germany	65, or early retirement with 35 years contribution (reduced revenues)	No	Yes, beginning 2012 rising to 67 in 2029,	Yes
Hungary	62	Yes	Yes, to 65	Yes
Netherlands	65	No	Yes, under discussion, to 67	Yes
Portugal	65	No (women's retirement age raised from 62 to 65 in 1990s)	Nothing decided	Yes, bonus if work longer, penalty if early retirement
Slovenia	58 with 38-40 years contributions or 63 with 20 years contributions	Yes	Yes	no
United Kingdom	65 for men, 60 for women	No	Yes, gradual rise to 68 for men and women by 2046	no

Source: Country policy reports

The self-employed in the Netherlands have to make a private pension saving strategy, which contrasts with the pension saving of the employees – the large majority of the workforce – by default enrolls in occupational pension schemes. Both in Hungary and the Netherlands, some self-employed people have successful businesses and manage to save whilst others do not. For the latter group, working post retirement age might be important to sustain their lifestyle in old age.

3.6 The impact of the economic crisis

The impact of the economic downturn on interviewees' planning towards their retirement appeared quite insignificant in most countries. Some argued that retirement is still far away; others stated they did not have any investments that were directly affected by the crisis.

Why would this crisis influence my plans for retirement? First of all, I don't really have plans for my retirement and secondly, I don't really feel this crisis that I hear a lot about. I am even sure that I am feeding the economy, I am sure. No, I think that maybe a crisis in 20 years might affect my plans more, than it would now.

(Belgium, 25-35)

Thanks God, I was not a member of any private pension fund. We suspected even then that private pension funds are synonymous with swindle.

(Hungary, 65-75)

However, a few interviewees in Hungary, the Netherlands, Slovenia and the UK felt that the financial crisis had impacted unfavourably – at least to some extent - upon pension savings.

I: Has the crisis impacted on your plans for retirement and your pension?

R: Yes, definitely; of course you are scared about what is going to happen...will there be pensions at all... and financially... will you have a job at all and consequently the pension and how is it going to be at all. But it is so far, I just leave it to one side.

(Slovenia, 45-55 years)

However, only in the UK a few interviewees explained that the timing of their retirement depended not only on eligibility for state or occupational pensions but also on their having built sufficient savings and/or pensions. A small number of British interviewees had postponed their retirement for at least a year, because the financial crisis had seriously diminished the value of their pension savings.

In the other countries, the financial crisis did not appear to have been a factor influencing the timing of retirement. However, in all countries there is an increasing emphasis on individual responsibility for personal pension saving and, although unpopular with most interviewees, one recognised by almost all households in every country. An increased reliance on private and occupational pension funds, the decline of Defined Benefit⁶ schemes and growth of Defined Contribution schemes will mean that market risks tend to shift to individuals. Although the impact of any changes to pension systems depends on the existing systems and the relative importance of the various pension pillars, it is likely that, as in the UK, the timing of retirement in the future will become more flexible and dependent on the amount individuals have managed to accrue in savings and assets.

Key Findings

- Overall, there were many similarities between the eight countries in the way interviewees spoke about retirement planning but there were differences between the age groups.
- Older interviewees tended to believe that the state was responsible for providing income in old age especially as they had paid taxes and made contributions throughout their working lives.
- Whilst there was a great deal of support for state provision, interviewees expected the state pension to diminish in importance in the future and that individuals would become increasingly responsible for their own provision.

⁶ Essentially, a Defined Benefit pension scheme can be thought of as a pension in which the ultimate benefits that will be made available to the pension holder are clearly 'defined' in the agreed rules of the scheme. This means that from the outset the pension holder will know what they are getting when their pension reaches maturity. A Defined Contribution scheme is a pension scheme where the value of the employee's pension on retirement is dependent on how much a member paid in to the scheme and how well the investment performs. A key characteristic of these schemes is that the investment performance risk of the pension is borne by the employee and not the employer.

- The youngest interviewees appeared to be more optimistic about their ability to make provision for retirement whilst interviewees in the middle cohort were often concerned that they had not made sufficient provision and had little time to do so.
- Younger respondents said they planned to save and mentioned a diverse range of strategies which often included using housing equity or a second property to generate income.
- Younger interviewees also expected to retire later than current retirees both because of plans to increase the official retirement age and because they anticipated needing the income. Interviewees in the middle age cohort appeared less enthusiastic about the prospect of having to work longer than did the youngest interviewees.
- Interviewees often found pension systems confusing and some felt the state has a role in educating and informing people about pensions, the need to save, the different ways of saving for a pension, and the amount they would receive.
- In some countries, people were encouraged to contribute to pension funds because of the tax benefits attached to pension savings.
- The current recession appeared to have had little impact on retirement planning for the majority of households.
- Although most households were aware of policy changes, in particular, plans to raise the state pension age and expectations about the future value of the state pension, these did not appear to have changed their planning behaviour or strategies. They typically choose to 'wait and see'.

4 Care and housing in older age

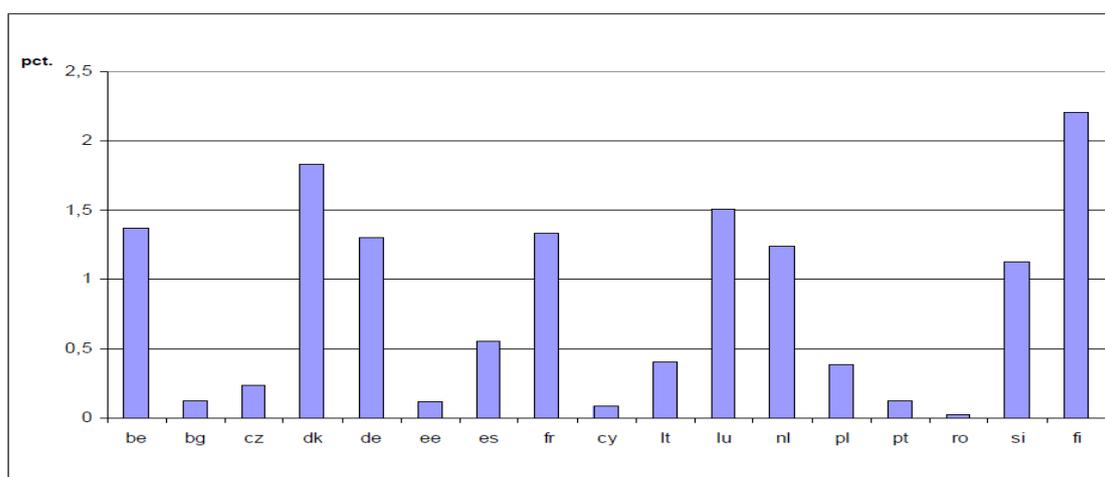
4.1 Introduction

The care of older people is a key pressure arising from ageing populations across EU. In chapter 1, Table 1.1 showed that life expectancy, as well as healthy life expectancy (the number of years that someone can expect to live in good or fairly good self-perceived health) varies between our countries. EUROSTAT data revealed that, on average across the EU, men and women aged 65 could expect to live for 6.7 years and 8.5 years, respectively, in relatively poor self-perceived health where they may require increased health and care support.

This situation is recognised by most national governments as well as at the European Union level. The EU promotes the coordination of national long-term care policies through the open method of coordination (OMC), with a particular focus on access, quality and sustainability of long-term care. This includes attempts to enhance the provision of services across a mix of home, community and institutional services, but with an acknowledged priority to develop services that will help people live in their home for as long as possible' (European Commission, 2008). This reflects the Eurobarometer study (2007) finding that households generally prefer home or community care to institutional care. Long-term care is defined by the OECD (2005) as 'a cross-cutting policy issue that brings together a range of services for persons dependent on help with basic activities of daily living'.

Long-term care provision varies across Member States. Bearing in mind that definitions differ across countries, Figure 4.1 gives an indication of the differences between countries in terms of the percentage of GDP spent on long-term care. Six of our eight countries are represented in this figure, showing that Finland was spending the highest proportion of GDP on long-term care (over 2%), followed by Belgium, Germany, the Netherlands and Slovenia (between 1-1.5%), with Portugal spending the least (just over 0.1%) Whilst it is reported that Member States are focused on enhancing tailor-made home and community services, and moving away from institutional care, the extent of provision and coverage of population varies (European Commission, 2008).

Figure 4.1 Expenditure on long-term care as percentage of GDP, 2004



Source: Eurostat Health expenditure, reported in European Commission, 2008

Key: be=Belgium; bg=Bulgaria; cz=czech republic; dk=denmark; de=germany; ee=estonia; es=spain; fr=france; cy=república of cyprus; lu=luxembourg; nl=netherlands; pl=poland; pt=portugal; ro=romania; si=slovenia; fi=finland.

Table 4.1 Level of national policy emphasis on key types of long-term care options (high, medium or low as described by country respondents)

	Informal care	Professional care at home	Housing with support/ care	Institutional care
Belgium	Med	High System of home aid/ home care	High Service flats, high demand	Med Demand higher than places
Finland	Med Caregivers allowance available; some recent shift back to family sector from professional care	High Home help and home nursing services; volume decreased recently	High Service housing (obstacle free, technical aids, security measures etc); increased in last decade	Low Number of places decreased
Germany	Med Carers allowance according to care level	High Home care financed by compulsory care insurance	Med Some progressive models (inter- generational housing, assisted neighbourhood or co-housing)	Med Funded partly by compulsory care insurance
Hungary	High	Low Varies by region; Varies by region; municipally financed care is means- tested	Low	Med Long waiting lists; multi-bed rooms Equity counted
Netherlands	Med	High Municipality services (discretionary charges, income based only)	Med Small scale housing for elderly; presently being increased	Med Some shared room provision Equity not counted
Portugal	High Very limited financial support	Med Recent policy shift towards home care, but underdeveloped	Low	High
Slovenia	High	Med Personal allowance to cover services but services in relative infancy	Low Developing some social provision for older people in supported housing	High Long waiting lists; in need of modernisation Equity counted
United Kingdom	Med Carers allowances	High Discretionary means tested basis (income and savings). Numbers reduced due to targeting.	High Sheltered housing widespread; retirement communities	Med Equity counted

Across Europe, informal care remains the predominant form of care for older people. Whilst patterns of informal care and societal attitudes and assumptions to this care differ across member states, care by family members of older people (as well as younger disabled people) underpins long-term care arrangements and their sustainability (Glendinning *et al*, 2009). The informal care of older people is highly gendered with three quarters of carers being women, an average age of 55 and with almost half being daughters or sons of the older person (Eurofamcare, 2005). For half of these carers, a perceived absence of other options was a key

reason for providing care. In the EU27 countries, 9% of women and 4% of men state that they care for an elderly or disabled relative on a daily basis (Anderson *et al*, 2009).

All European countries also offer a number of formal long-term care options to their population, however the nature of these options as well as their quality and cost, differ quite significantly between countries. Whilst a full appraisal of these differences is beyond the scope of this study, Table 4.1 attempts to provide an outline of the main long-term options available in our eight DEMHOW countries. This Table is derived from information collected for the project's institutional report (Hegedus *et al*, 2010), supplemented by further information by our country teams. Overall, it can be seen that Western/ Northern countries appear to be more likely to have relatively well developed in-country provision for home care and housing with support options than Southern/ Eastern countries.

A number of previous authors have clustered European countries under different 'care cultures' (Glendinning *et al*, 2009). Lamura *et al* (2007) have proposed a typology of European welfare regimes based on three key factors: demand for care (e.g. share of oldest-old population, economic wealth); provision of informal care (e.g. diffusion of extended households and informal care); and, provision of formal care (e.g. public expenditure on elder care, share of older people receiving formal home care or residential care). The five types of welfare regime are:

- standard-care-mix (middle Europe, including UK and Italy) with medium to high demand for care, medium to low provision of informal care and medium provision of formal care and where both family based and state provided care is delivered;
- public-Nordic (Scandinavia and the Netherlands) with medium demand for care, low provision of informal care and state provision predominates;
- family based (Spain, Portugal, Greece) with high demand for care, medium provision of informal care and low provision of formal care;
- Transition countries (Hungary, Poland, Czech Republic): with low demand for care, high provision of informal care and medium to low provision of formal care;
- Baltic countries (Estonia, Latvia, Lithuania): with low demand for care, high provision of informal care and very low provision of formal care.

This chapter examines the responses of our 240 DEMHOW interviewees on care options in their countries. It particularly focuses on the similarities and differences in preferences and expectations for different types of care provision, and the implications that this may have for the role of home ownership. It begins by examining householder responses to a vignette about the care of an older woman, then moves onto consider people's plans for future care, and then finally a consideration of perceptions of who should be responsible for paying for care.

4.2 Responses to Care Vignette

All interviewees across the eight countries were asked to reflect on the following vignette:

A 75 year old lady lives alone in the small house with a garden that she owns. She has been managing at home but is becoming frailer. One of her children lives in a village 30 kilometres away and visits her every week to help her with cleaning the house and doing the shopping. Her other child lives 100 kilometres away and visits on a Sunday to cheer up the older lady. The elderly lady's health deteriorates and she is no longer able to care for herself.

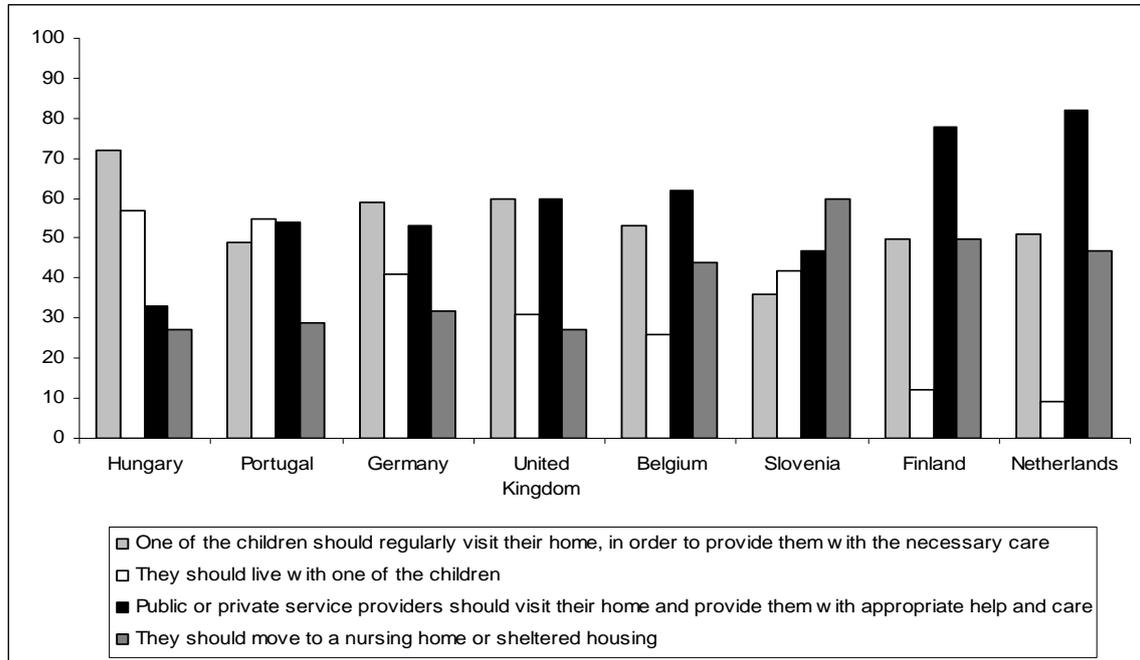
- What should happen now? What are the options?
- Who do you think should be responsible for her care? Why?

What are the options available for the older woman?

Five main types of options were discussed in the accounts of the interviewees across the countries.

- Family members visiting the older person to provide care;
- The older person moving in with her children/ relatives;
- The older person receiving professional care at home;
- The older person moving to sheltered or service accommodation;
- The older person moving into residential or nursing care.

Figure 4.2a Imagine an elderly parent who lives alone and can no longer manage to live without regular help because of health conditions. In your opinion, what would be the best option for people in this situation? People were asked to state first and second preference



Source: Eurobarometer, Health and long term care, 2007

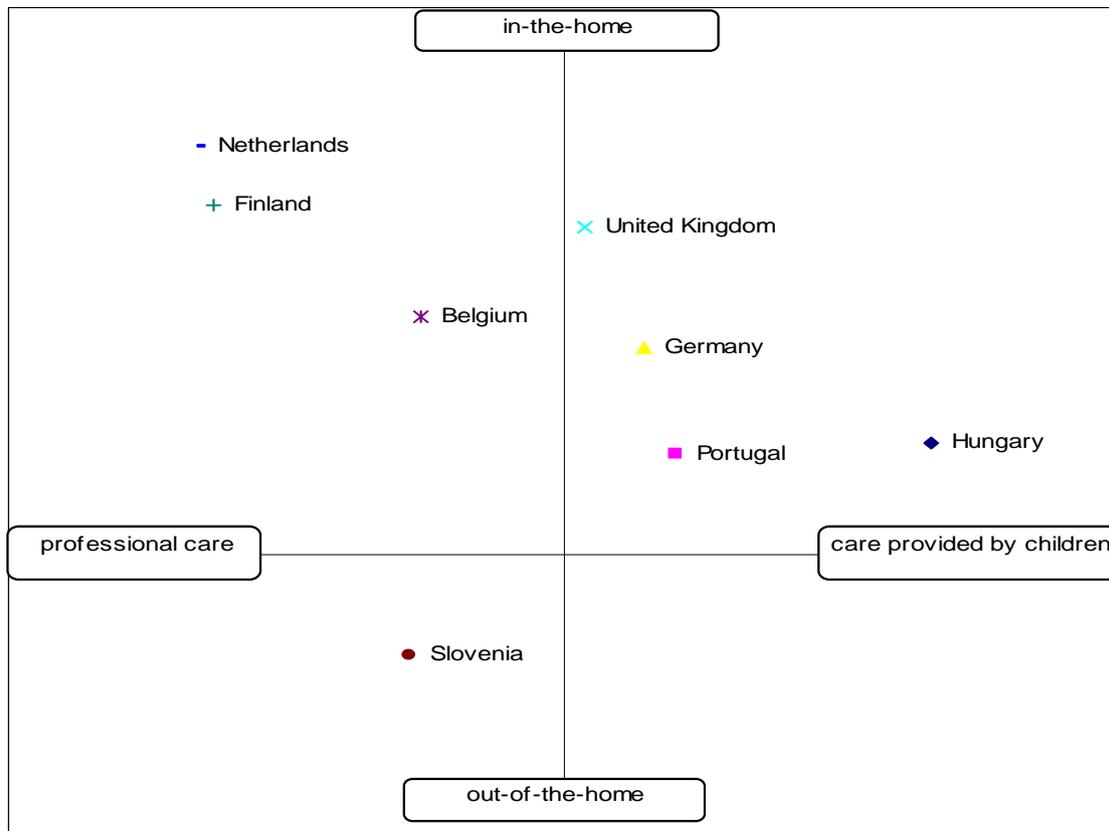
The categories discussed encompassed the main categories discussed in the Eurobarometer (2007; see Figure 4.2a and 4.2b) question on the best option or options for an elderly parent who can no longer manage in her own home without regular help due to health conditions. Figure 4.2b represents that Slovenian interviewees were the only ones to identify professional care outside of the home (institutional care) as the best option. The Netherlands, Finland and Belgium identified professional care delivered to the person’s home as the best option. Other countries, but particularly Hungary, had a tendency to prioritise care provided by the children in the home.

Interviewees in our study often discussed a number of these options alongside each other, debating the merits and demerits of them. In two countries, (UK and Portugal) interviewees stressed that the decision would be contingent on a large number of factors including the extent of the older woman’s care needs; the responsibilities of the children; how well the family got on with each other, and the older person’s preferences. In some countries, as explained below, there was a clear preference for one option, usually professional care at home. In a couple of countries, views were quite split between two or three options which appeared to be largely explained by availability / access issues for particular types of services. As explained below, cultural norms and expectations were evident in some accounts.

Family visiting the older person to provide care

This option was discussed in four countries (Netherlands, Germany, UK, Hungary) by a few interviewees but was usually dismissed as impractical given the distances between the homes of the older woman and her children. Whilst a few people thought that 30 km was not too far away, most thought a move would be required by either the woman or her children. The fact that the vignette stated that the woman was no longer able to care for herself probably meant that many interviewees presumed that the older woman needed considerable care which could not easily be delivered by a visiting family member. A vignette with a woman with clearly lower level care needs might have had different outcomes.

Figure 4.2b Country preferences for care options derived from Eurobarometer (2007) study question on 'best care option for an elderly parent who does not manage independently due to health problems'.



X axis represents 'Professional care' (on the left) vs 'Care provided by the children' (on the right).

Y-axis represents care 'Out-of-the-home' (at the bottom) vs care 'In-the-home' (at the top)

Source: Eurobarometer, Health and long term care, 2007

Moving in with children/ relatives

In contrast to the option of family members visiting the older person, the possibility of the older woman moving in with one of her children was discussed in detail in all countries, although with quite different emphasises. Occasionally, the option of the children (or grandchildren in Hungary) moving in with the parent was discussed, but in most cases, people presumed that the older person would move in to live with the relative if this option was chosen.

The option of a move to live with children or other relatives was most strongly put forward by Hungarian interviewees. This is in line with the of the Eurobarometer study (2007) which shows that over half of Hungarian interviewees mentioned this option. Figure 4.2a show that Hungary is the highest of the DEMHOW countries. The Hungarian country report authors explained that this reflected the profound conviction among interviewees that it is primarily the duty of the family (usually children) to care for a frail relative. Most discussed this option 'without second thoughts' and explained that the obligation was based on love: *There is no responsibility if there is no love. But if they love their mother, they will find a way.* This cultural norm was reinforced by a specific cultural practice and bequest strategy whereby the older generation often choose to leave their home to one child as part of an understood 'trade off': the child would look after the parents and in turn the parents would leave their real estate to them and not consume its value. One respondent explained:

I think in Hungary the situation is quite clear. One child takes the responsibility and the other child will have to assent that the caretaker will inherit the real estate. Most likely the one living closer will move the old lady into his/her home. And furthermore it is also

very probable that not the old lady but the children will make the decision. In Hungary most old ladies do what their children say. Taking care is the responsibility of children.
(Hungary, 25-35)

There were a couple of exceptions to this theme in Hungary where a few interviewees warned about the traps of moving in with an adult child's household, but these tended to be based on personal experiences where this had not worked rather than the respondent being against the idea in principle. Although not explicitly stated, it is likely that moving in with the children was also preferred given the lack of alternative options, with residential care (the only other real alternative) being quite feared by some in Hungary because of its poor quality (see below).

The option of the older woman moving in with her children was also the most common first reaction of interviewees in Slovenia, and chosen as the best option by a third of the sample. However, a number of potential obstacles were listed to making this a reality, particularly the likely childcare and employment responsibilities of the children.

Well, look, she could theoretically go stay with the children, but I would not advise her to so. Because ... such an old lady is a big burden for this young family, that is already well overburdened, you know. Now, if this lady was still in such a condition that she could provide help to the family, that would be fine, but so... to push something... I think then conflicts would come and in that case a home for the elderly is better.
(Slovenia, 65- 75 group, woman with children)

The option of the older woman moving in with her children was also quite extensively discussed by Portuguese, UK and German interviewees (in line with Figure 4.2b), with most interviewees providing a number of qualifying reasons as to whether this would be a good solution or not. For example, in Germany, some interviewees referred to what is quite a common acceptable scenario in their country whereby one of the children takes care of their parent and in return inherits the house that the grandparents used to live in (either to sell it or move in straight away).

Whilst the qualitative nature of the work needs to be noted, interviewees in Finland, Belgium or Netherlands appeared to be least likely to propose this option as a preference. In Finland it was stressed that this option only really worked well if the family was also supported by visiting professional home care. This reflects the Eurobarometer findings (2007) where Finish and Dutch interviewees were very unlikely to mention this as an option (and Belgium the third least likely to mention this; see Figure 4.2a).

Across countries, a number of reasons were given as to why it might be unwise for the older woman to move in with her children:

- the children and parents might not get on sufficiently well to allow this option to work. At the same time, where people got on well together, caring for a family member at home might risk losing the important emotional connections between people (Belgium and Germany accounts, in particular);
- the responsibilities of the children: *You cannot hand down it [responsibility] to children because they live in their own families. They have their own families, their own worries. (Finland);*
- it is not the cultural 'norm' to have a two, or three, generational household (one respondent in Finland and Portugal stated this explicitly, respectively);
- the older person might feel like a 'burden' to her children.

Interestingly, interviewees in the youngest age group in some countries (including Germany, UK, Slovenia) were more likely to suggest that the older person moved in with her children than older interviewees. They were most likely to think that this would work without any difficulties. In contrast, those who appeared closest to the age group needing care were least likely to suggest this. Many people explained that the older person would be a burden on the children, and they personally did not want to put this sort of stress on their own children. In addition,

some had personal experience of how stressful a caring role could be and would not want anyone else to experience this.

That reminds me of my grandmother...the children might have their own lives – my mother missed out on a lot of her life looking after my grandmother – then a year after my grandmother died my father had a stroke so she didn't have much of a break between the two.

(UK respondent, 45 – 55 group, single)

As identified above, the majority of carers of older people in Europe are women. This gender bias was reflected in some accounts (though did not seem evident in Germany or Slovenia). Often there was an underlying assumption that a daughter would do more for her parents than a son. Sometimes people corrected themselves when this was explored by the interviewer (reflecting politically correct norms), but others confirmed that they did feel that this was likely to be true in many cases. A few older male interviewees, in particular, felt that a daughter would be more likely to look after her parent than a son.

I: You said 'move in with her daughter' as an option, wouldn't this be the case with a son?

W: Yes, I do think that moving in with a son, would not be possible. I think that even moving in with a daughter is not self-evident. With your son, you also have his wife, and a daughter-in-law, that is not always a good match. I am not saying you cannot get along with your daughter-in-law, but it's still different.

I: And why does the son-in-law matter less in the equation?

M: I just think that a woman is more difficult.

W: I just think that it would be better for that old lady [referring to vignette 3] to move in with her daughter than with her son.

I: Maybe because a son is less caring?

W: Yes, I don't know. I have a good connection with my mother, while it is less with her son. My brother has a better connection with his father. I also notice that my sons draw more to their father than to me. Although for problems, they do come to me. To fool around and play, they go more to my husband.

I: [asked to the husband] would you rather move in with your son than with your daughter?

M: I would also rather move in with my daughter. A woman is also more at home than a man. And it is also another kind of connection.

(Belgium, Man and Woman, 45-55 with children)

Professional help at home

The arranging of professional home care was clearly the preferred option in four countries: Finland, Belgium, Netherlands, Germany. The Eurobarometer findings showed particularly high levels of support for professional care at home in Finland and the Netherlands (with over three quarters mentioning this option, see Figure 4.2a). Many interviewees stressed that the older woman would want to stay as independent as possible for as long as possible. Interviewees spoke as though this was 'self-evident'. A few also mentioned that it would be better for the health of the older woman to stay independent, with a move being detrimental to people.

It was clear that interviewees appeared more likely to mention this option in countries where home care was relatively well developed. People's views chimed very closely to the prevailing policy nationally (see Table 4.1) (also reflecting EU emphasis in this area). UK interviewees, however, did not appear to discuss this option to the same extent as some countries despite the policy emphasis in this area. It is unclear why this may have been the case although UK interviewees did tend to rate both access to, and quality of, home care quite low in the Eurobarometer study (see Figure 3a).

The option of receiving professional care at home was also discussed by interviewees in Portugal (about half of interviewees mentioned), Hungary (12 interviewees mentioned) and Slovenia (as third option by a minority of interviewees). However, these discussions were

framed in a different way. Portuguese interviewees referred to 'paying someone to be with the old lady', and Hungarian interviewees mentioned this as a 'good' but 'expensive' alternative given the geographical distance of the family (though visits from the family would still be important). Interviewees without children appeared to suggest this option more than those with children in Hungary and Portugal. As Table 4.1 shows, state provided and funded home care is relatively underdeveloped in these three countries, and some interviewees may have thought they needed to purchase this care from the private sector. In Hungary, those who suggested home care were relatively affluent, whilst all the poor interviewees suggested family solutions.

This situation is very real, I get goose bumps from thinking that it might happen to us any time. But I think the choice depends on the financial situation of the lady. Because having a house is one thing but her wealth is a different thing. Home care is one possible option, which is not cheap but has the fewest risks.
(Hungary, 65-75)

Housing with support/care

A move to housing with support or care setting was seen as good option in a number of countries (Finland, Belgium, Netherlands, Germany UK), with interviewees identifying that such a move could provide a balance of autonomy and the care needed to interviewees. Different housing with support/ care models are in existence in these countries, and it was clear that the availability of these options influenced respondent's account. In Finland and Belgium, many people talked about a possible move to a 'service' or 'serviced' apartment. 'Sheltered housing' was mentioned in the Netherlands and the UK. A few German interviewees mentioned possible progressive options of neighbourhood/ co-housing. Retirement communities (where residents have their own bungalow but other core services are provided on one community site) were also mentioned by a couple of people in the UK, although people thought these would be expensive.

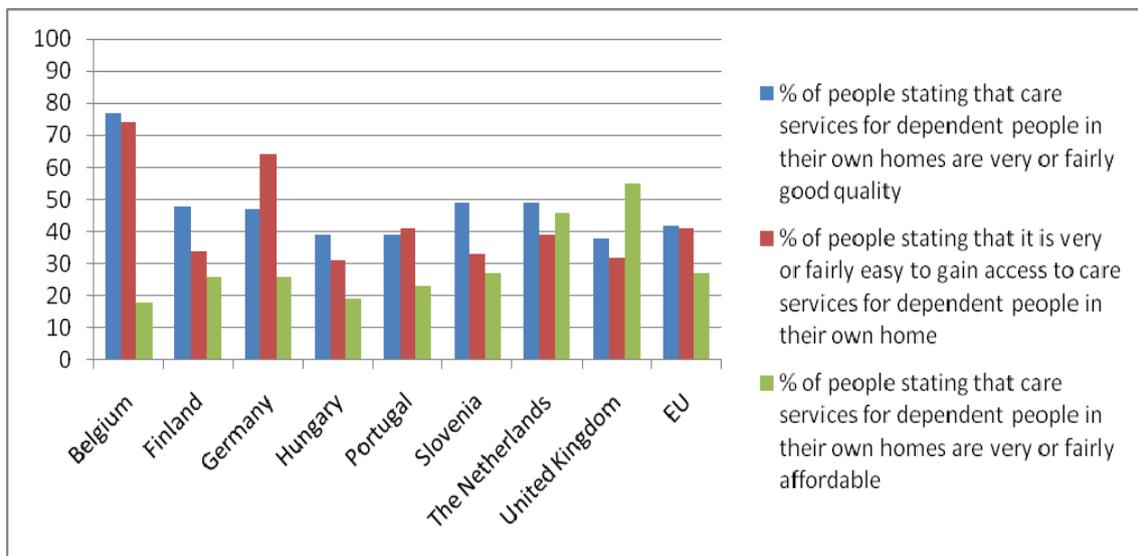
One person in Slovenia mentioned supported housing as a possible option, but generally housing with support options were not mentioned in Slovenia, Hungary and Portugal. Again, this is likely to reflect the absence of well developed supported housing options in these countries.

Residential or nursing homes

Institutional care settings were discussed quite frequently by interviewees, particularly in Portugal (two thirds of sample mentioned), UK, Hungary and Slovenia and to lesser extent in the Netherlands, Germany and Belgium, and only by two Finnish interviewees. In the Eurobarometer study (2007) Slovenia interviewees were the most likely to state this as an option for an elderly parent. However, only a few interviewees in the present study spoke about institutional care as a positive choice. Rather, it was explained that this type of care would enable the older woman to avoid becoming a burden on her children. It was explained above that younger interviewees more often suggested the older woman should move in with the children; the reverse was true here, with more older interviewees suggesting that a care home may be an acceptable option.

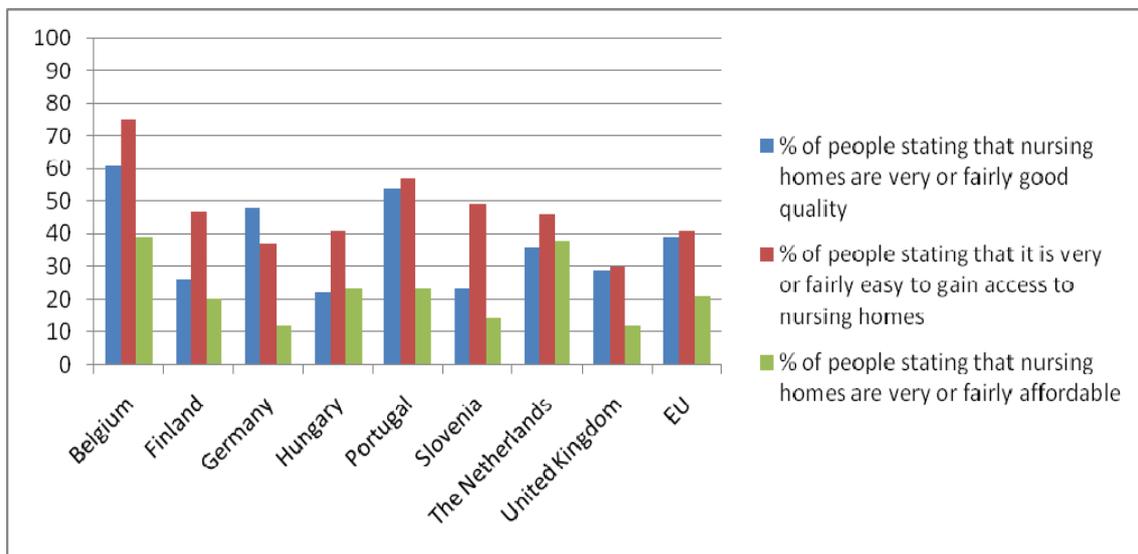
In other cases, it was clear that interviewees suggested institutional care as a last resort if no other options could be put into place and/or the care needs of the older woman were too high for support within the community. These views reflect the EU wide preference for older people to stay out of institutional care wherever possible (Eurobarometer, 2007). Portuguese interviewees appeared to mention this option the most (sometimes alongside other solutions). The Eurobarometer findings report that Portuguese interviewees are more likely to state that care homes are accessible and good quality than all other countries in this study with the exception of Belgium (Figure 4.3b). However, possibly or equal or more salience, some interviewees explained that the traditional family is not really alive in the way it used to be in Portugal.

Figure 4.3a Percentage of Eurobarometer (2007) respondents who rated care services for dependent people to be of good quality, east to access and affordable



Source: Eurobarometer, Health and long term care, 2007

Figure 4.3b Percentage of Eurobarometer (2007) respondents who rated nursing homes to be of good quality, east to access and affordable



Source: Eurobarometer, Health and long term care, 2007

Nowadays, unfortunately, what children do is to look for an elderly home for their parents. But that is something they should consider only if they had no conditions. They should have their mother with them, some time with one of them and some time with the other. But that is me being romantic and thinking that children have that thinking...

(Portuguese respondent, woman, 65-75 group)

In Hungary, this option was also mentioned frequently but never as a first option. Here, often interviewees related quite frightening stories about residential care, with it being referred to as an 'ugly solution'. The accounts often revealed a deep mistrust of these institutions and the

conviction that they shorten the life of many who move into them. A couple of UK interviewees also expressed this view quite strongly.

Who do they think should be responsible?

Interviewees were also asked to consider who they thought should be responsible for the older woman's care. The role of the older person herself, that of the family and state responsibility were discussed:

Role of the older woman

The autonomy of the older woman was emphasised, both implicitly and explicitly, in many accounts, with particularly strong accounts in Finland and Belgium, stressing that the woman's personal preferences should be respected and any decision should be a result of negotiation between the person and her family. Similar views were expressed in the Netherlands and the UK. German accounts were probably strongest in terms of pointing to the older person as the one to decide her future, with the exception of cases where people were suffering from dementia.

It was clear that many interviewees made a distinction between responsibility in decision making and responsibility to ensure that a suitable range of options were available to the older person (see state provision below). However, some interviewees pointed to the need for the woman to take 'precautions' so these options would be available to her.

Role of the wider family

For some interviewees, the family was responsible for providing the care directly in their home, or in the home of the older woman, particularly in Hungary, but also to lesser extent in some other countries (see above section).

The family was also seen as the main organiser of care. Whilst some countries have systems whereby a social worker will investigate the different care options for a household (referred to as 'care management' in the UK), no-one mentioned this. Rather it was for the family to provide information on the different options, and subsequently, their responsibility to organise this care. Once in place, they also have the responsibility to ensure that the care is delivered appropriately, as well as to provide direct assistance with some aspects of support and care (at least in the form of visits).

State responsibility

The potential responsibility of the state was not explicitly discussed in all countries. The strongest account was related by Finnish interviewees who made a very clear distinction between the responsibility of the family to arrange care and a wider social responsibility on the state and its partners (including civil organisations and churches as well as households themselves in a form of collective responsibility) to ensure that the appropriate range of care options are available to people.

F: Perhaps it is the task of one's family and kin to take care of that one gets to a place that is suitable for just that person. But it is the business of the state or the municipality that such service housing [the preferred alternative] exist.

(Finland, couple without children, 25-35)

Similar, if simpler, views were expressed in other countries. Some interviewees made the point that the state should make arrangements but these were not always in place as they should be at the moment, either in terms of provision or funding to enable access to that provision. For example, one Belgium respondent explained:

If you hear what people have to pay to go into a retirement house! It is 63 euros per day. You cannot pay that with your legal pension... I think people should get enough pension to afford a decent retirement house. I think the legal pension should be adapted, so that it is high enough.

(Belgium respondent, woman without children, 65-75 group)

4.3 Interviewees plans for, and expected outcomes of, future care

After considering the hypothetical situation of an older woman needing care, interviewees were asked about any plans they might have in place for future care and also to reflect on who they thought would actually take care of them in the future, should they be unable to look after themselves. It should be noted that some country report authors stated that this was a very difficult question to ask people (particularly in the Netherlands and Hungary). This section explores the key differences between people’s accounts of who they would rely on, compared to the type of provision identified for the older woman in the vignette above.

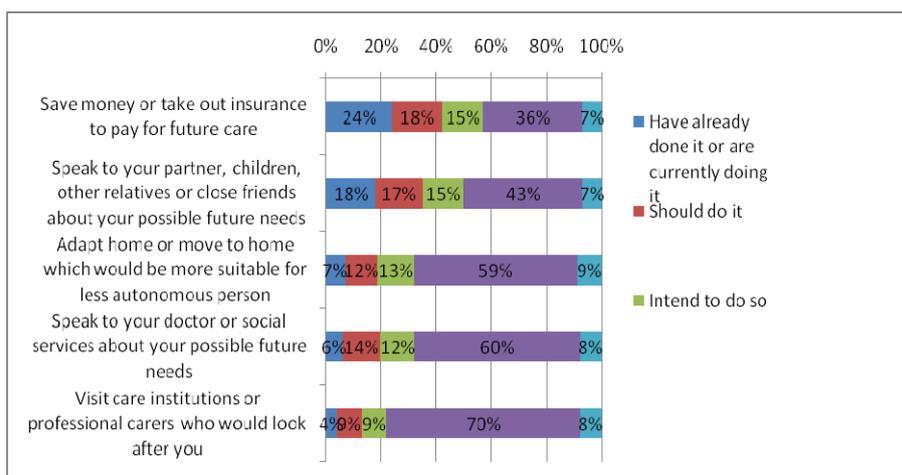
Level and types of planning

Generally people expected that they themselves would need to take responsibility for planning for any future care needs. However, strikingly, actual levels of planning were quite low in most cases. Planning was particularly limited in the younger and middle age groups of interviewees. Some interviewees stated that they had general plans in place to save sensibly for any future needs, but few had made any specific financial plans for care or arrangements with family. This reflects the Eurobarometer findings (Figure 4.4) which highlighted that only a quarter of people had saved money or taken out insurance to pay for future care, but even lower proportions of people across the EU27 countries had undertaken any other form of planning, including speaking with relatives about care arrangements, adapting a home or finding out information on possible options.

A minority of people, mainly older households although also a few middle aged respondents, had plans to move around the time of retirement, for example to a smaller property. Others were exploring options including co-living or communal arrangements in the Netherlands and Germany. A few respondents in Germany and the UK also mentioned ‘keeping healthy’ as a preventative plan.

One might expect that having children or not might make a difference to people’s planning, however this in practice meant that people had planned more or less than their peers with children. For example, in Slovenia, those with children had a clearer picture of their plans, whilst in Hungary, the reverse was true with those without children having undertaken more planning.

Figure 4.4 Level of planning amongst EU27 householders



Source: Eurobarometer, Health and long term care, 2007

Expected future care

Children

Interviewees were most likely to say that their children would take care of them if their support needs were relatively low and/or as long as they could still remain in their own home. Overall, consistent with the above vignette, they envisaged a central role for their children in arranging any future care options.

As also noted in the vignette, younger interviewees were likely to think that their children would care for them in the future than middle and older interviewees (Slovenia, Finland, Belgium, Netherlands, Portugal, UK). This was even the case when interviewees did not yet have children.

Sometimes interviewees reflected differently on the role of their own children compared to those children in the vignette. For example, in the Netherlands, some stated that the children should not be burdened by a duty of caring, but did actually mention their own children in a possible caring role. In contrast, in Germany, a few people had suggested the role of children in the vignette but could not imagine this in their own situation. Analysing these discussions, it became clear that some interviewees did have a hope or ideal of their children looking after them, but explained that this was probably not a realistic option given children's situations and own views on the matter.

M: I don't believe that ...

F: ... either of my children [would look after us] ... We are in good terms but that's the truth.

M: It is just a kind of beautiful idea but it is not realistic. I don't think so.

(Finland, older couple with children)

My children, since now we are investing on them, supporting them. Later on, positions may reverse. It will be proper that they do what we are doing now. If they do not, we will of course have to go to the possibilities in the market: precarious, lousy, expensive, and of dreadful quality.

(Portugal, Man, with children, 65-75)

Partner

In the vignette, it was clear that the older person was living alone. However, some couples in the sample across all the countries mentioned the potential role of their partner in caring for them should they require this. Many people saw this as their first option, despite the obvious drawback that it was likely that one person would die before the other person and therefore the surviving person might need to find an alternative care option. A few more men talked about this than woman, possibly both reflecting gender roles and the longer life expectancy of woman.

F: The kids won't be the ones taking care of us, that is for sure. We just hope that one of us two remains well.

M: We just hope that we can stay at home for as long as possible."

(Belgium, Man and Woman, 45-55 with children)

Other relatives/ friends/ community

The role of other relatives, friends or members of the wider community was rarely mentioned in any countries. Occasionally, the possibility of close extended family (particularly nieces) playing a role was mentioned (particularly by those without children) but generally this was thought unlikely and/or undesirable unless it could involve an explicit payment arrangement being put into place (mentioned in Belgium and Finland). In Hungary there was one case of a person who had already bequeathed an apartment in return for her care - a 75 year old retired teacher, who had decided against a pensioners' home or annuity for her apartment, and chose instead to leave her apartment as a bequest in return for care to a member of her extended family. In

Belgium a totally different arrangement was envisaged, based around the availability of state support for carers:

If I cannot take care of myself anymore, I think I might hope for my nieces, because my daughters-in-law live too far. You see, I have a good relationship with the three daughters of my sister. Maybe I could pay them to take care of me. People cannot be expected to do it free. I know that the money I got for taking care of mother, came in handy –although at first I did not want to accept it-. I think it is a real good initiative of the government.
(Belgium, woman, 65-75 with children)

As with the vignette, there was some occasional mentioned of more alternative solutions to care in older age such as co-living or communal arrangements.

Housing with care and/or residential care options

It appeared that some people expected to rely on a formal care option to a greater extent than was discussed in the earlier vignette. People often mentioned moving to a service flat, to sheltered accommodation or to a residential/ nursing care home. A few older people had made explicit plans for a retirement community or care home (in the UK and Germany). Interestingly there was not much mention of receiving professional care in their home although this may reflect the phrasing of the question.

Interviewees appeared to think that an institutional response was more likely in reality than a family response (even if a family response would be preferred, see above). Some people also appeared to be quite altruistic in their views - a number of interviewees preferred to go into a home rather than be a burden on their children – even though they would want to enable their own relatives to avoid institutional care (particularly older households in the UK):

...I would want to move into a care home, I would not want to be a burden on anyone...but if it was my mother or mother in law then if we had a big house or the money to pay for care personally I would do anything to try to keep them out of a residential home...
(UK, Couple 25 – 35)

A couple of younger people thought that family care would be a thing of the past by the time that they needed care.

No idea so far... I think it'll be normal by that time that family isn't the main institution for that anymore.
(German respondent, 25-35 group)

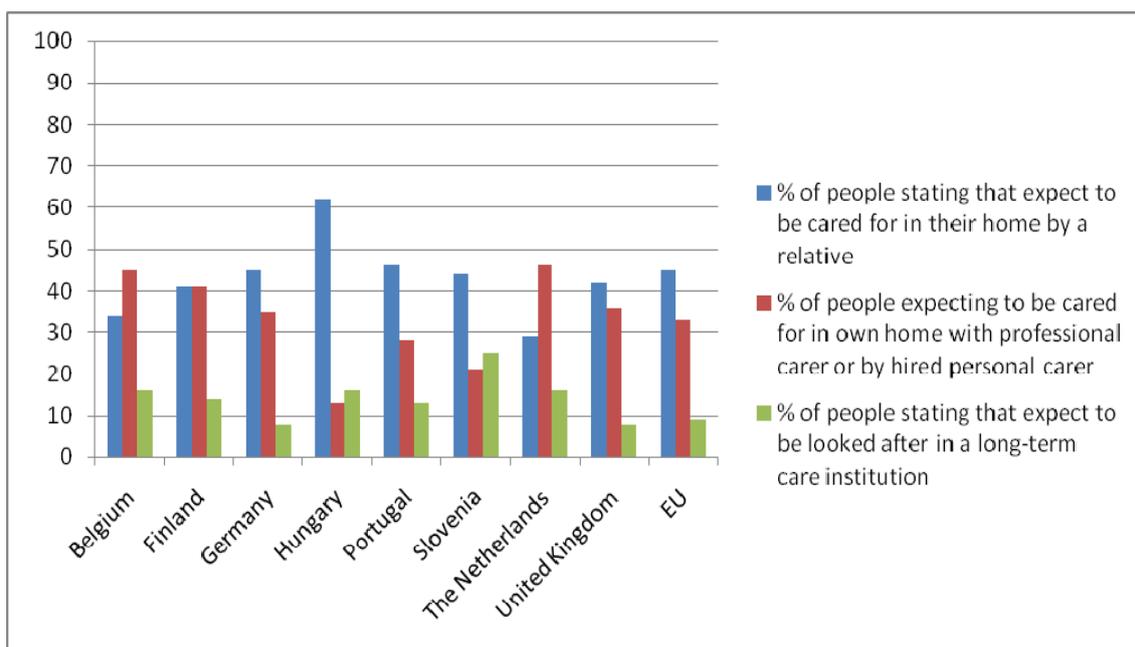
However, still many interviewees mentioned problems with institutional responses in their country. This was particularly the case in Hungary with people explaining that some institutions were overcrowded and parasolvency (paying staff extra to deliver care) was common. The state system was seen to be particularly poor, with some hoping to be able to afford private institutions that could offer higher quality accommodation and care. Some people in other countries, including Finland, also mentioned the value of seeking out higher quality private care.

I am counting on finding a private solution, to go to a place where they look after me. I don't know how this works right now, but I have a very unlucky memory about a cousin of my mother, who used to be midwife in a few villages. She was placed in an old age home reserved for health care personnel outside of Pest. She was taken there as an acknowledgement of her work ... but the conditions were terrible. Three of them lived in one room, they were practically killing each other. ..When I visited her, she was already in the sick ward, where I could barely move between two beds.
(Hungary, 45-55)

The DEMHOW interviewees' appeared more pessimistic about the possibility of utilising formal care options compared to the Eurobarometer (2007) results which indicated that 9% of EU27 interviewees expected to move into a long-term institution (nursing home), with 8% also

stating this as the preferred option⁷. The Eurobarometer study found that 45% of interviewees both expected and preferred to be cared for in their own home by a relative. Figure 4.5 shows expectations across our DEMHOW countries, highlighting some variation along the same lines as in Figure 2. For example, Hungarian interviewees were most likely to expect to be cared for in their own home by relatives, Slovenian interviewees were most likely to expect to use institutional care (compared to other countries) and the Netherlands, Belgium and Finland were most likely to expect professional care or a hired carer at home.

Figure 4.5 Percentage of Eurobarometer (2007) respondents who expected to be cared for in their own home by a relative, in their home by professional or hired carer and looked after in long-term institution



Source: Eurobarometer, Health and long term care, 2007

Alternative solutions?

Finally, a few people in the older age groups really feared a future situation of becoming unwell and having to choose from what they thought might be quite limited care options. They literally hoped that they would die, or take their own life, rather than face this situation.

We together. We take care of each other. And then we jump from the fifth floor down, in the river (laughs).

(Netherlands, Couple, both 68 years old, children)

No [I do not plan]. Because I hope God will be merciful and I will die soon, so I won't be a liability to my family.

(Hungary, woman, 45-55)

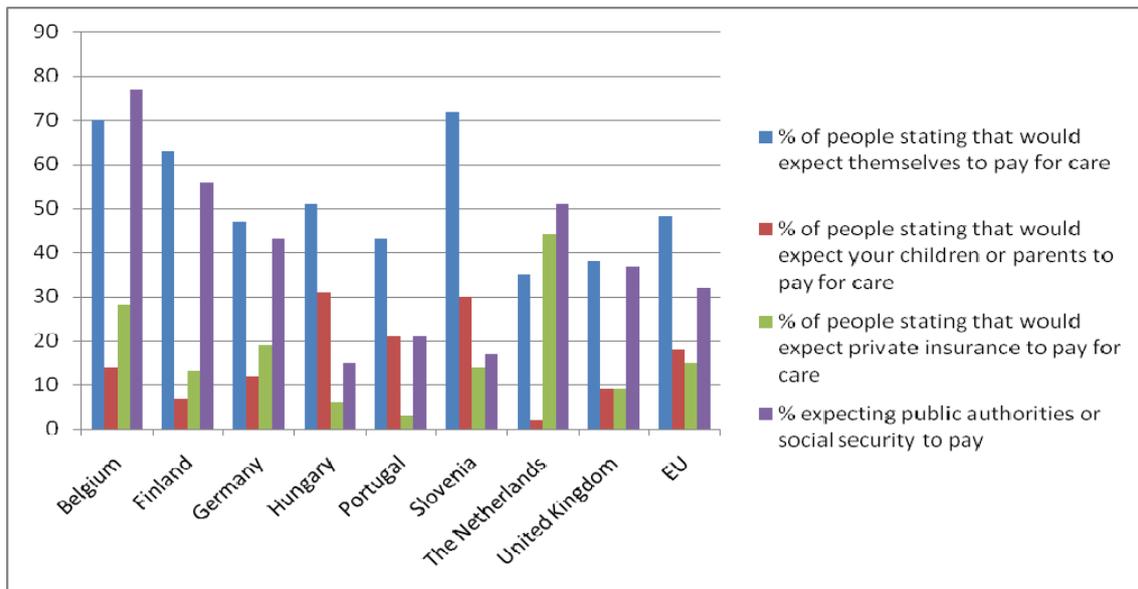
4.4 Who will/should be responsible for paying for care?

Figure 4.6 shows the Eurobarometer (2007) results for the eight DEMHOW countries for the question of how people expected to pay for any care, thus not only for old age, that they needed in the future. Interviewees could give more than one response to this question. As can be seen, in a many central and western European countries (for example, Belgium, Finland, Germany, UK) a similar proportion of interviewees expected that they themselves and the public

⁷ This may reflect our line of questioning which asked them to imagine that they would need care, whereas the Eurobarometer study were asked about how likely they thought they would need nursing home care.

authorities would pay for any care, suggesting a dual system with responsibilities on both parties. Quite a low proportion of interviewees expected their children or parents to pay for care, but this was highest in Hungary, Slovenia and Portugal. Private insurance was noted as most important in the Netherlands, followed by Belgium.

Figure 4.6 Expectations of people as to how they would pay for any care they need in the future



Source: Eurobarometer, Health and long term care, 2007

The responses of our qualitative interviewees largely reflected the Eurobarometer findings. As mentioned in the above section, almost without exception most interviewees believed that they (and sometimes their family) had responsibility for arranging care for themselves and family. It was also found that in all countries people expected that they would have to pay for care to some extent. It is important to note that this differed to people's expectations around the delivery of health care where most people expected this to be provided and arranged by the state.

Interviewees in Portugal, Finland, UK, Germany, the Netherlands, and to a lesser degree Belgium, expected to have to pay *towards* their care. Some talked about the role of the state in contributing to this, particularly in countries like Netherlands and Finland where systems were thought to be in place to pay for most of a substantial amount of care. In many cases people appeared resigned to paying for care but thought that it was unfair as they had paid their taxes and public insurance.

The Government has a role, there should be home help coming in and looking after people especially when you have probably put a lot into the country in your working life so I think you should be looked after adequately...I think the government expects the family to step in and help out but I think the government should be doing more...
(UK, 45 – 55)

Some were not very clear as to whether they would have to pay or not but hoped that they would be covered:

We are insured right? Man, we pay enough for that. We pay for care costs everywhere. That is all extracted from your income. And on top of that you pay every month god knows how much to it (health care insurance). If they then still do not want to pay anything, come on that would be ridiculous.

(The Netherlands, woman, single, 70 years old, with children)

Children might have a role in supporting their parents, providing some care or arranging care (as far as they were able to) but, for the most part, they were not seen as responsible for paying for care. Portuguese interviewees felt quite strongly that children had a responsibility towards their parents – more so than in other countries (although interestingly interviewees in the UK at least had often provided care to their own parents and elderly relatives but did not wish their children to do the same for them) and some thought they should pay for care. Some interviewees from other countries felt quite strongly that children should not have to pay for their parents' care.

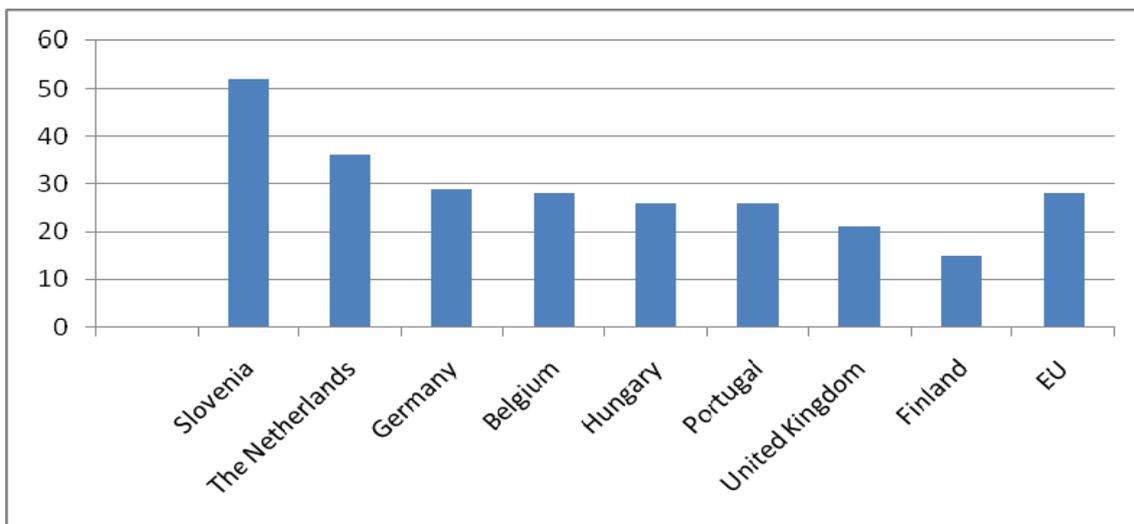
I find it profoundly inequitable that the children pay for their parents' care, because the children have to earn that for themselves.

(Germany, 45-55)

And to make that clear: By no means do we expect that from our children. Not only not expecting it but also we wouldn't want their life-planning to be affected thereof [...].

(Germany, 65-75)

Figure 4.7 Proportion of respondents that agreed that a person's house or flat should be sold or borrowed against to pay for care



Source: Eurobarometer, Health and long term care, 2007

Interviewees in the Netherlands, UK, Portugal and Finland also talked about having to sell their homes to pay for care. However, this appeared to be unavoidable, it was not something they planned to do and certainly not something they wished to do as most wanted to leave their property to their children. The Dutch, for example, talked about being 'forced' to use their assets, their savings and equity. In Portugal, it was mainly those without children who said they might use housing equity to pay for their care. Figure 4.7 shows that a minority of interviewees in these countries agreed that a person's house or flat should be sold or borrowed against to pay for care.

In some countries, particularly Slovenia and Hungary, people were used to having to make their own provision or rely on relatively poor quality state provision.

I think it must be family. But it might be that the State has great responsibility here. But social security is so bankrupted that already today the Government wants families to take care of their elderly. If an elder has a son or daughter with a certain amount of income, s/he is obliged to help his/her parents. That is what current policy obliges to, today. Only if children have nothing or if the

(Portugal, 65-75 group)

Slovenian interviewees expected to pay for their care and that their children would make a contribution. Most people thought that they would be able to afford to pay towards their care and could manage through a combination of public programmes, their own money and help from their children. The role of the state was residual – it would pay if the family could not. A few talked about selling their homes if they had to move into sheltered accommodation or a residential home. The Eurobarometer findings show that Slovenians were far more in favour of using housing equity to pay for care than other countries (Figure 4.7) and less likely to say that long term care services are affordable (Table 4.3b).

In Hungary, there was far more emphasis on the role of the family. It was generally accepted that children would provide care. This appeared to be explained in part by the importance attached to inheritance in Hungary. Instead of using housing equity, Hungarians would prefer to bequeath the property to the child who provided care for them (see earlier quote).

Few people mentioned the demographic time bomb specifically but it was evident that many realised that the state would struggle to provide care in the future and reluctantly accepted that the individual would have to take more responsibility. The Eurobarometer report (2007) found that the majority of people believed that the state will be unable to pay for care for older people in the future (especially in Portugal where about 80% thought so) and Germany (around 70%).

4.5 Conclusions

As highlighted in the literature (Glendinning et al, 2009), the role of informal care, most predominately close family members, is central to the provision of long-term care for older people throughout Europe. However, the role of the family in providing care is framed quite differently in different countries. Broadly speaking, there were considerable differences between the more Northern/ Western countries and those in the Southern or Eastern Europe. The former groups tended to emphasise the role of the family in arranging care rather than directly providing this care to a greater extent. This was particularly the case in Finland, Belgium and the Netherlands. However, it is important not to stretch these country categories too far as, for example, there was quite important differences between the two transition countries, Hungary and Slovenia, with interviewees in the former country appearing to have a stronger preference for family care than in Slovenia. Interviewees also remarked that the family was not providing the same role in Portugal as in the past. Overall, the findings reflect the different care cultures described in the literature (Lamura *et al*, 2007) although the differences between transition countries were more prominent than would have been anticipated.

Although not usually explicitly discussed by interviewees, it was clear that people's decisions were framed by the policy and institutional context regarding what types of long-term care options were in place nationally. Many interviewees explained that it was better for an older person to remain independent for as long as possible in their own home. In some countries, particularly Finland, Belgium, Netherlands and Germany, interviewees had a preference for the delivery of professional home care to people's homes. This largely reflected the availability of this type of care at a national level. Interviewees in Portugal, Slovenia and Hungary sometimes also mentioned arranging care at home but this was usually arranged and paid for privately rather than delivered by the state. Some interviewees in Western/ Northern countries also discussed the possibility of an older person moving to specialist housing with care settings, like sheltered or service housing. Although most often mentioned in Slovenia, generally institutional residential or nursing care was seen as a last resort by most interviewees.

There were some important differences observed between different cohorts of interviewees. In particular, the youngest age group in a number of countries was more likely to suggest that an elderly parent should move in with one of their children than older interviewees. Older

interviewees sometimes had direct experience of caring for an older relative and felt they themselves did not want to become a burden on their children. It is likely that this was therefore an age, rather than a generational, effect. As might be expected, there were also some differences for interviewees with and without children in their future plans for care, although those without children did not necessarily plan to a greater extent than other households.

A key finding from this chapter was that the role of home ownership was rarely a key driver in decision making around care. The clearest exception to this was in the case of Hungary where a bequest strategy was widely practiced of leaving the house to one child who then cared for you in return. However, this aside, people did not generally regard equity to be a key determinant of a person's choice when facing a deteriorating health condition. Whilst some did discuss the possibility of moving to a sheltered or service flat, only a few spoke about the importance of equity in making this possible.

When it came to discussing people's own care plans, it was clear that very few had made explicit plans for the future. People had many hopes and fears about the potential situation that they might find themselves in later life. Some hoped for family care but felt that this was unlikely. Many hoped to rely on the help of their partner. Again, people rarely mentioned the role of equity in these decisions, with the exception that some people planned to downsize / move to more appropriate accommodation. In terms of paying for care, people realised that the state was likely to struggle with meeting the care needs of an ageing population in the future. Here, some people did discuss the potential role of housing equity and felt that it was likely that they would have to use their home to pay for care. However, there was a great reluctance to do so as they felt that they had saved all their life and many wished to leave their property to their children.

5 Role of equity

This chapter focuses specifically on the role of housing equity in the financial strategies with respect to retirement. In the final part of the interviews we explicitly addressed interviewees housing equity and its potential role in the financial planning for old age. The option to take out a reverse mortgage in old age is specifically addressed. Additionally, interviewees were asked to elaborate on the fact that current elderly are tended not to consume their housing equity in old age.

5.1 The amount of housing wealth

We started with questions about the value of interviewees dwelling and the size of the mortgage debt. The current market value of the dwelling minus the still outstanding mortgage is the total amount of housing equity people have.

Although in all countries interviewees seemed to some extent aware that their property had increased in value, not all were able to estimate the current market value. For instance, in Finland, Germany, and Slovenia some interviewees were unable to mention a price, as the house had not been on the market for a long time. Others did not want to mention an actual market price; they stated that their 'home' does not represent wealth, as they do not plan to move. In contrast, in Hungary, the UK, and the Netherlands there seemed to be a rather high awareness of the price.

The youngest households in all countries, except in Hungary and Slovenia⁸, were generally having considerable mortgage debts and relatively little housing equity. The increased house prices go for the youngest age-group hand in hand with increased mortgage debts; whereas, interviewees in the older and middle age-groups in all countries had profited considerably (see figure 2.6). For example, in Portugal it was reported that the value of the dwellings of the oldest age-groups had been multiplied 20 times. High inflation in Slovenia in the eighties had faded away loans that were taken out to finance housing. Further, in Slovenia and Hungary interviewees in the oldest and middle cohort had had the opportunity – in the nineties, in times of the transition – to purchase a dwelling for 10 percent of the market value. Overall, the gain from house price increases has been high for the middle and older age-groups and comparably lower for the younger age-groups. To conclude, the middle and the oldest group had substantial housing equity that could potentially play a role in retirement strategies.

5.2 The importance of housing wealth in old age

Interviewees were asked whether the owner-occupied dwelling would be of financial importance in old age. To start, it needs to be mentioned that for all interviewees in all countries, owner-occupation mostly represents a 'home'. In general, this meaning is more prevalent in interviewees thinking and speaking than the meaning of owner-occupation as an investment good.

W: The only thing we calculated is the monthly debit and that is not higher than the rent we would have to pay for a dwelling we like. That means a relatively big dwelling with 150 m2 or so. So for that we would have to pay as much rent as we pay for the credit now.

M: So for us the function of the house is habitation... the impossibility to loose that living space because no landlord determines the tenancy. Thereby we actually didn't think of an investment."

(German couple, 65-75 years old)

⁸ In these two countries savings and intergenerational transfers play an important role in financing owner-occupation (see chapter 2). Although in case of Hungary the sample was also biased towards outright-owners.

"I see my home as something to live in... for as long as possible... No, no, no other options and ... those whatever you name, I just want to live here in peace until death and so..."

(Slovenian woman, 65-75 years old)

"Common sense would say yes [the home is a financial resource], but it is not something that is a big factor. It is not something that consumes us all the time, thinking 'oh it is worth so much now'. Yes, it is a kind of stability, but we are old and when you are old you die, so... it is not something that you are going to be frantic about."

(British, 65-75 years old)

Additionally, when asked whether their home could be of financial importance to them in retirement, interviewees sometimes reject this question. Maintaining the house sometimes is so expensive, that the house can actually be a burden. Nevertheless, everywhere households were also aware that owner-occupation represents 'wealth', and interviewees generally were able to elaborate on the financial 'benefits' of owner-occupation, in a number of areas as described.

Consumption of housing wealth for undefined occurrences

First, the owner-occupied dwelling represents a valuable nest-egg in old age. If there would be a financial urgency, and people would not have other means to solve the situation, they could cash their housing wealth. Most often interviewees have no precise occurrences in mind that could be the cause of the financial problems. If interviewees imagine they would need to release their housing wealth, they think about selling as the most appropriate way to do so.

"W: The certainty of having your own dwelling and hopefully no longer having a mortgage.

M: Also the fact that you no longer need to pay rent. And of course, the option to sell it. But then only in extreme need, when no other options are available. It will certainly not be for example to afford extra luxury."

(Belgium couple, 25-35 years old)

"I think it is more some sort of safety-net kind-of-thing. It [owner-occupation] is not really something I plan to earn my money with, through purchasing and selling. Because you normally buy something more expensive after, because you want to live comfortably. But of course it is convenient to have invested your money in the dwelling. And to know that if something might happen, you can sell the dwelling and purchase something cheaper and to have a whole lot of cash available."

(Dutch man, 25-35 years old)

"With your incomings and outgoings you just manage. And if you can't manage, then you think about using your house. But I wouldn't rush into this."

(British)

Consumption of housing wealth for long-term institutional care

In Slovenia, the UK, and Belgium, interviewees thought that housing equity might play a role in their financial strategy if they would face extremely high costs for old age care. Also interviewees without children in Hungary and Portugal thought that housing equity might play a role to be able to afford care.

In Slovenia, long-term care institutions (nursing homes) are described as very expensive. Commonly, children take care of parents as long as they can. Parents and children need to balance what weights heavier: the burden of giving care or the necessity of the financial means for the children. Slovenian interviewees expected to need their pension incomes, children's contributions, and additionally the proceeds from selling their property to be able to afford institutional care provision.

"Why would it [the owner-occupied dwelling] be significant [in old age]? Well, if I happened to want to go into a home for the elderly, I would probably need to pay more

than my pension would cover, so I might make a deal with somebody for such an additional payment; otherwise I would need to sell my home. So my home is a kind of security, it is an income to cover the additional payment for a home for the elderly, If I were to accept this. I don't know now, one can never know. It all depends upon the circumstances."

(Slovenian woman, 45-55 years old, without children)

In the UK, to calculate individual contributions to the costs for nursing homes, income, savings and capital – among which housing wealth – are included in the means test (UK policy report). Consequently, interviewees foresee they will have to consume their housing wealth if they would need to move to an elderly home. Although not explicitly mentioned by the 30 UK interviewees, it is known that there is a trend in Britain for some households to engage in 'asset-dumping' (that is, give the assets to their children or others many years before they are needed for care) so that assets are not acquired by the state (UK policy report). Additionally, some British interviewees argued that the policies were unfair.

"[The elderly woman who needs professional care] would have to sell her property to pay for it and I don't agree. I work in the sector and I see people who have never saved a ha'penny, they have spent their money willy nilly on anything they wanted and when it comes to them needing care, they get everything they want and only have to pay a very small charge whereas people who have a pension or their own property – their charges are higher and they end up paying more...the thing is now if you get old and need care then you need to have nothing or mega amounts of money..."

(British couple 65 to 75 years old)

Also, in Belgium the step into a service flat or nursing home was regarded as costly. Some interviewees mentioned that the proceeds of the sales of their property could partly be used to pay for care.

"The house just represents capital and if we want to move to a service flat, then we at least have budget to our disposal."

(Belgium woman, 45-55 years old)

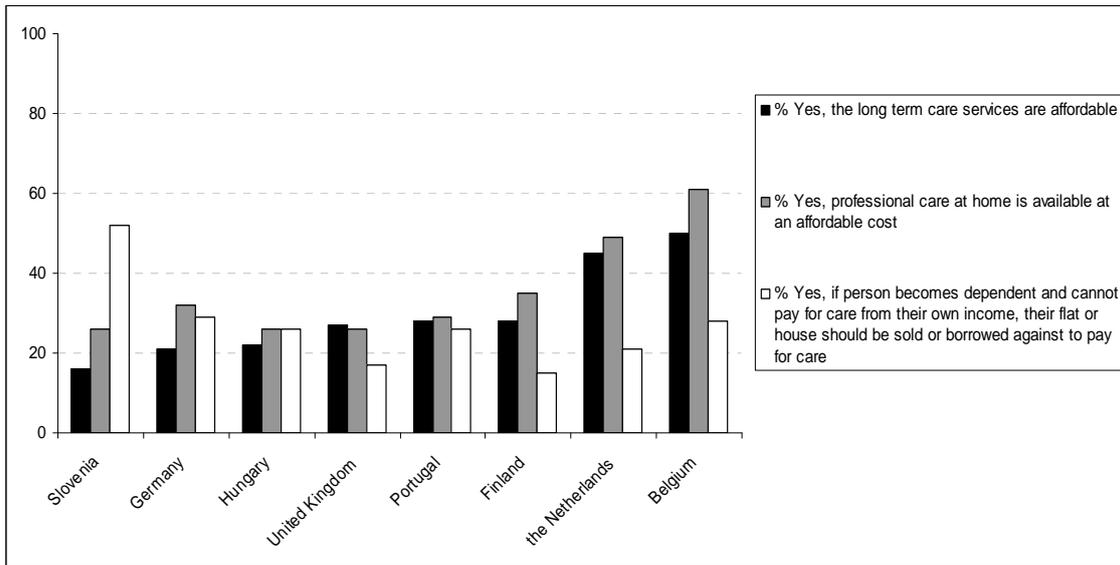
In Hungary and Portugal, interviewees without children regarded their housing wealth as a crucial emergency fund. In these two countries care is still commonly provided by the children (see Chapter 4); and long-term institutional care is perceived as rather expensive. In Hungary, nursing homes have a bad reputation and conditions are described as dire. The monthly fees are being calculated on savings income, and assets, including housing assets. Besides the regular monthly payments and an entrance fee, the elderly need to pay extra to receive so-called 'higher-level' care. Additionally, in many institutions there is the practice of 'parasolvency'; this means that patients make under-the-table payments to care providers in order to get good care. In short, having financial means available if one has no children is crucial for good professional care in old age in Hungary. Interviewees rather choose to use their housing wealth to pay a caregiver.

"It will be important. If something happens, in terms of health, it is possible to sell and use the money to get support of someone, somewhere. Because I think that the prices of institutions for the elderly are absurd. They are absurd, not minimally compatible with the amounts of pensions."

(Portuguese woman, without children, 25 to 35 years old)

In figure 5.1 it can be seen that in Slovenia, people are more used and more in favour of the idea that the proceeds of a property are being used to pay for care. It is also the country where long term care services and home care services are regarded as least affordable. In all other countries a minority thinks that housing wealth should be used. In Finland least agreed that housing wealth should be used. But also in the UK, few agreed that housing wealth should be used to pay for care. Perhaps this could be interpreted as a protest against current policies that include housing wealth in the means test for households' contributions to the costs for residential care.

Figure 5.3 Eurobarometer (2007; 2010)



Source: Eurobarometer, Health and long term care, 2007 & Eurobarometer Poverty and social exclusion, 2010

Consumption of housing wealth in case of a too low pension income

Besides for care, also in case of a too low pension income housing wealth is seen as a precautionary fund. Especially, in Hungary, except for the richest households, housing wealth appeared important for financial well-being. Many interviewees can hardly get by in their working lives, and consequently cannot save for retirement. In Hungary, retirement does not logically imply that people stop working. On the contrary, many Hungarians will – if they have the opportunity – continue working, and the steady but low state pension will enable them to save, to give more financial support to the children, or to consume somewhat more for some time. Then, if households would no longer be able to work due to serious health problems, and they would not be able to manage financially, they would in first instance be supported by family members. However, if the family is not able to give sufficient support, the elderly will calculate how much money they could cash if they would downsize. Downsizing is in Hungary regarded as a realistic occurrence.

The Hungarian researchers explained that in particular the self-employed are a special group with regard to their pension prospects. Many evade taxes in order to have higher incomes. However, this implies that they are not fully eligible for the state pensions. Therefore, they need to make private pension savings. Many do not succeed – they invest in their businesses instead – and therefore expect they will have to continue working after retirement. However, if health conditions would not allow them to work, they might have to use their housing wealth.

In the UK and Finland some interviewees expressed a strong distrust towards private pension funds; instead they preferred to invest in bricks and mortar. In the UK there have been many cases where people lost all their pension savings. These occurrences got a lot of media attention, and people were wary against the private pension funds. Some British interviewees had lost their pension savings, because companies went bankrupt. In response, the youngest age-group indicated to rather invest in their owner-occupied dwelling and wish to climb the housing ladder. During retirement they once again 'planned' to step down the housing ladder.

In Finland, it is partly the aggressive marketing for private pension insurances by the banks that seemed to get on young interviewees nerves. Additionally, they preferred to stay in control of their pension savings, their financial means, instead of leaving it in the hands of the private pension insurers. They regarded investment in housing as more attractive. Compared to the

youngest British interviewees, the youngest Finnish interviewees seemed to speak more about second properties, instead of their owner-occupied dwelling and a housing ladder. They stated, that instead of being dependent on a pension fund, they would be in control of the investment themselves, and additionally, if they would pass away early, the capital would be passed on to their children.

"Somehow it would feel like owning something concrete, it's something there for me and if I die or something then it would be passed on to my children and they would get to own it. I enjoy owning something concrete. I don't want them [the insurance company] to send me something in the mail every month in order to find out the current rates."

(Finnish woman, 25-35 years old)

Not only in Finland, the youngest households were speaking about investment in 2nd properties to let. This was also found in the Netherlands, Germany and Belgium. These 2nd properties were typically seen as part of their financial planning, more so than their owner-occupied dwelling (see also Chapter 2). In first place they expected to receive rental income from it. Secondly, if there would be a financial urgency they could sell and cash this housing wealth.

Nevertheless, in the Netherlands, some interviewees without second properties had 'plans' to consume housing equity through selling their owner-occupied dwelling. One household was living already on a relatively low income. Once he would retire, he planned to sell his apartment and move into the rental sector to have some more financial means. In the Netherlands, moving to rental housing is considered as an appropriate option. In Hungary, Slovenia, UK, Finland and Belgium interviewees stated rather strongly that the selling and moving into the rental sector would not be an option.

Next, in the Netherlands, self-employed who – in contrast to employees – do not automatically participate in mandatory pension saving, often included their housing in the planning. The retired interviewees who had been self-employed during their working lives had often downsized. It must be said that they still could afford relatively luxurious apartments and their living standard was above average. The self-employed in the age of 45 to 55 had plans to sell.

"Man: Yes, the house is our nest-egg. It gives us the luxury to do many things we would like to do. It is the cream on the jelly. We will sell the house, because with the two of us, what would we do with it. It gives us way too much work, six sleeping rooms... With the children it is perfect, and with family staying over. But at some point it will be too big."

Interviewer: What will you do then?

Man: No idea, it depends, maybe we will buy a camper. I have no idea really."

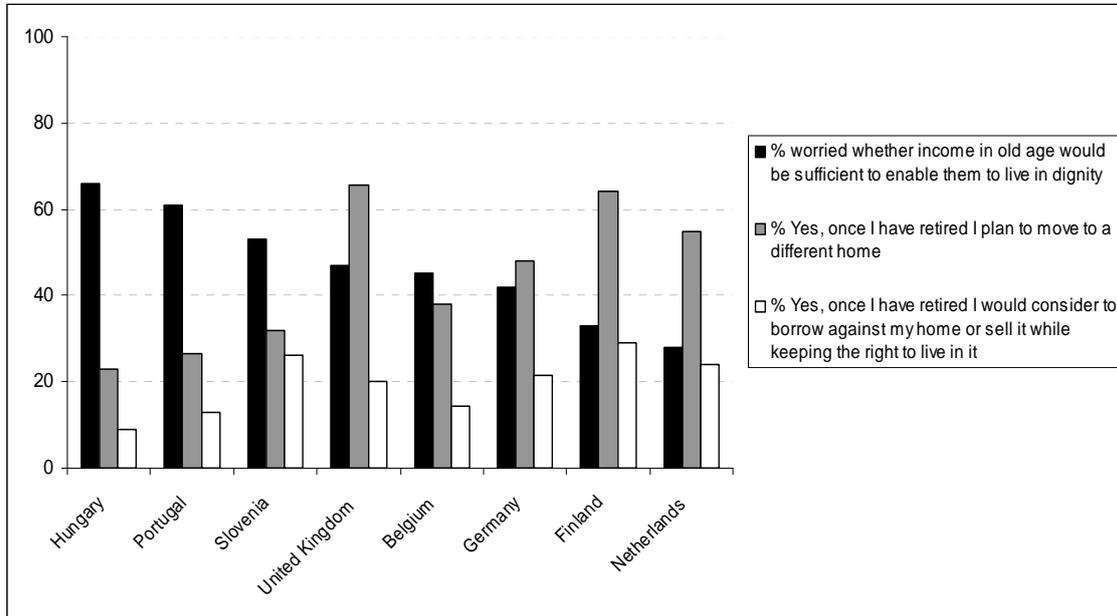
(Dutch couple, man is self-employed, both 45 years old, living with children)

The quote illustrates that the couple does not only plan to sell, to cash housing wealth, it is also considered because the dwelling is big and needs a lot of cleaning and maintenance. Hence the couple plans to move to acquire more appropriate housing. This argument is also used in Finland, where quite many interviewees can imagine downsizing in old age.

In figure 5.2 it is shown to what extent non-retired respondents worried about the sufficiency of their future pension income, and whether they planned to cash their housing equity. In Hungary, Portugal and Slovenia people appear most worried about their future pension incomes. At the same time, here they least appear to plan or consider moving to a different home. In Finland and the Netherlands, where least households are worried about the pension income, relatively many households seem to consider moving. The United Kingdom stands out with a high share of households that indicates to consider moving house once they have retired. Here, also a large share of households worries whether income in old age will be sufficient. Possibly the rather common idea of climbing up and down the housing ladder, might explain the relatively high share of British households that plans to move. Overall, it needs to be taken into account that the question about moving house in the Eurobarometer has been asked

to both tenants and owner-occupiers. Hence they give limited indications about consumption of housing wealth for some countries.

Figure 5.4 Consumption of housing wealth by non-retired households



Source: Eurobarometer, Monitoring social impact crisis, 2008 & Eurobarometer, Family policy, 2008

It is for instance likely that in Germany, where only 43 percent of the households is owner-occupier, it is mostly the tenants who consider moving. Also in the Netherlands, where 57 percent is owner-occupier, research indicated that it is more often tenants who move in retirement (Kullberg and Ras 2004).

Cashing housing equity was not generally regarded as a good solution for everyone in need. In Hungary, Finland and the UK, it was mentioned that consumption of housing wealth was only an option for people with relatively expensive properties. If the latter would move to cash part of their housing wealth, they would still live at an acceptable location, and in an appropriate dwelling. In Hungary and the UK, interviewees expressed their worries about the limited gains they would obtain by downsizing. Some thought they would not have any alternatives, as they lived in a relatively cheap dwelling and if they would need to cash, it would mean a serious drop in the quality of their living standard. They would have to move to an unattractive location, where house prices would be substantially lower. Some stated that this would be the moment they have to consider mortgage equity withdrawal. In both countries households knew this option. The Hungarians mentioned the aggressive marketing of the reverse mortgage products. They also mentioned that this product is non-ethical, as their children expected to receive an inheritance. Nevertheless, if there would be no other way out, this is an option that is taken into consideration.

The German researchers explained that in Germany it would be rather unlikely that interviewees would be confronted with a financially urgent situation and would have to consume their housing wealth. Owner-occupiers in Germany are the richest households in society; they have low housing expenses, if compared to tenants. Many of the older interviewees even possess second dwellings, which they let and which they could sell if they would not be able to manage financially. Similarly in the Netherlands, owner-occupiers are the richer people. In Chapter 1, figure 1.3 it was shown that in contrast in Hungary, Slovenia and Portugal also many people in the lower income quartiles are living in the owner-occupied sector.

Low expenses

In all countries, except the Netherlands, owner-occupiers are normally outright-owners in old age. This means that the mortgage is repaid and households have relatively low housing expenses if compared to tenants.

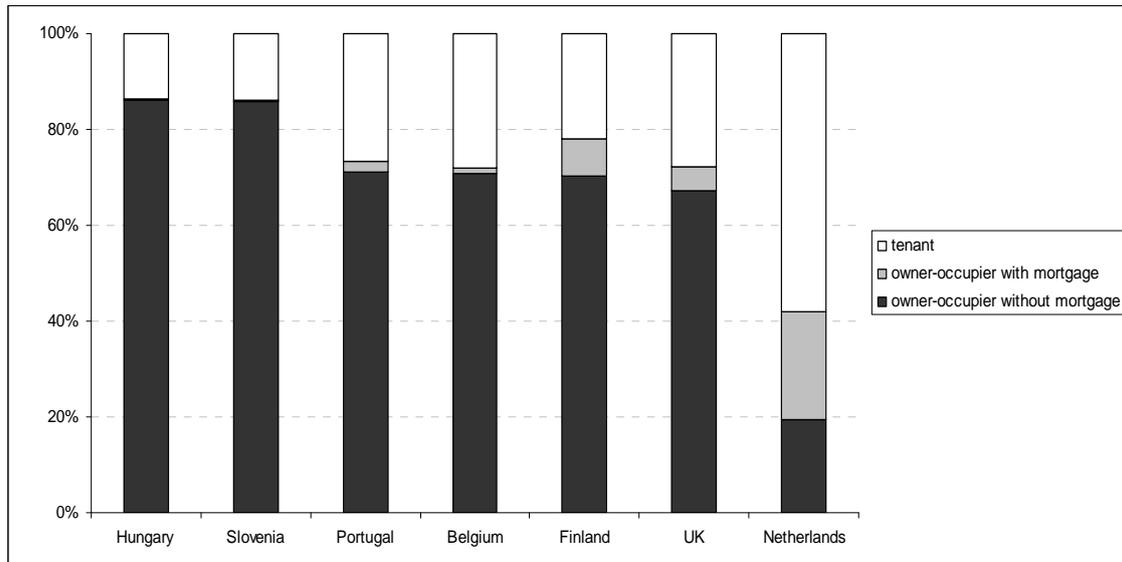
"If someone rents a house, he also has to pay electricity water etc. We own the house and we pay the expenses of the condominium, but that is nothing compared to a rent."
(Portuguese man, 65-75 years old)

This is mostly pronounced as an important financial advantage in Germany, Belgium, Portugal, and Finland. In Finland interviewees expressed a common belief that one can retire once all the debts, including the mortgage, are paid off. However, in most countries, the choice to buy a dwelling in the early stages of the life course was not associated with retirement planning, and the future advantage of having low housing expenses at old age. Buying a house mainly stands for acquiring a decent roof over the head, and is not linked to the retirement strategy. As an exception, in Germany, the young interviewees did regard their purchase as a part of their financial plans for old age. In a country with only 43 percent of households being owner-occupier, and renting providing a decent roof over the head as well, low housing expenses at old age are an important argument for buying.

In Hungary and Slovenia low housing expenses are less pronounced as an important financial advantage for old age. Here, interviewees are already outright owners in earlier stages of their life courses. The mortgage market is less developed; savings and intergenerational transfers play an important role in financing the purchase of a dwelling. Hence there is no sudden change in the height of the housing expenses between working life and retirement. Moreover, there are not that many tenants, and hence interviewees do not compare themselves to them. Having no monthly mortgage expenses in old age, but also in earlier stages of the life course is regarded as self-evident.

Then, finally the Netherlands is a special case, as less and less owner-occupiers fully repay their mortgages. At the end of the mortgage term many still have a remaining debt. They keep this loan in the form of an interest-only mortgage. This appeared due to the fiscal arrangements in the Netherlands for mortgagees, which makes mortgage loans cheap. Financial advisors had recommended retired interviewees to not repay the mortgage, but to keep part of it unpaid, as it was profitable to invest savings elsewhere. Additionally, it is feasible because current retirees in the Netherlands have relatively high incomes and can therefore easily afford the remaining mortgage debt. It appeared however, from the interviews, but also from another study, that many young people do not realise that they will still have mortgage debt left when the mortgage term finishes (AFM 2010). It is likely that when these young Dutch reach their retirement age, they will face higher housing expenses than they expected. It will depend on the pension incomes whether these housing expenses will be affordable for them.

Figure 5.5 Households of 65 years old older



Source: EU-SILC, 2006

The deviance of the Netherlands with respect to the other countries within the study can also be seen in Figure 5.4. Most elderly live in the rental sector. Of those who are owner-occupiers, about half has a mortgage and hence monthly mortgage expenses. However, partly this is a cohort effect. It is expected that future generations of elderly will more often be owner-occupiers (Kullberg and Ras 2004). Hungary and Slovenia stand out as countries where large majority is owner-occupier, and there are no mortgages left at old age.

Letting in case of emergencies

In various countries interviewees have stated that in case of emergencies they would rather let out than sell their dwelling. In Belgium, it was especially the youngest interviewees who argued they would rather let. They found it important to pass on substantial wealth to their children in the future. In Slovenia and Hungary this is also seen as a viable option in case of emergencies, because the inheritance of the property is important for future financial well-being of their children (see Chapter 2). If the house would be large enough, they could rent out part of their dwelling. In case it is small, or the income from the rent would not be sufficient they would (temporarily) move in with their children and let the complete dwelling.

In Germany households could imagine that in case of financial emergency, they would move into a relatively cheap rental dwelling and rent out the owner-occupied dwelling. This would make it possible to keep the property within ownership of the family. The German owner-occupiers had often received an inheritance or financial means from their parents, which enabled them to enter owner-occupation, or to even possess other dwellings. Many stated they would like to do the same for their children.

5.3 Considerations about reverse mortgages and trust in banks

New financial products have been developed especially for older people to liquidise their housing assets to add to pension income, while at the same time they can remain living in their dwelling. So far it has been estimated that these financial products make up 0.1 percent of the European mortgage market, and hence have not yet become very popular (Reifner, Clerc-Renaud et al. 2009). Due to the increasing pressure on collective old age welfare provision, it is expected that these type of products will become more popular in the future. There are a number of options available to release housing equity across Europe (see Table 5.1), however, our interviews focussed on reverse mortgages.

Familiarity with reverse mortgage products

Interviewees in all countries were asked whether they had heard of reverse mortgages and whether they would consider them.

A reverse mortgage is a mortgage product that enables people to use the money stored in the home to supplement their pension income. It works like this: Although people own their dwelling outright, they take a new mortgage. They receive a capital sum and the interest payable on this loan is added to the mortgage (so they don't have to pay immediately). The money they borrowed (and the added interest) will be repaid when the house is sold on their death or if they move for example into residential care.

Overall, it seemed that in Hungary and the UK, reverse mortgages were a well-known product. In the Netherlands and Finland also some interviewees indicated to have heard of it. In contrast, interviewees in Portugal, Belgium, Slovenia and Germany did generally not know the product. According to another EU study on equity release schemes, the UK has the most developed equity release mortgage market and a reverse mortgage is one of the options (see table 5.1). To a lesser extent reverse mortgages are available in Finland and Hungary; whereas in Germany, Belgium, the Netherlands, Portugal and Slovenia these mortgage products are not available (Reifner, Clerc-Renaud et al. 2009).

Table 5.4 Possibilities for equity release while remaining living in the dwelling

	Reported level of occurrence	Options equity release	The provider	Availability reverse mortgage* (Equity release scheme – Loan model)
Belgium	Marginal	Selling on life annuity Usufruct and receiving monthly payment to private persons Giving to children and receive care in return	Private persons	No market
Finland	Marginal, but described as new phenomenon with potential due to tax advantages; interest from government	Reverse mortgage schemes Reverse sales (seller stays in home and pays rent)	Financial institutions	Less developed market
Germany	No market Conservative mortgage lending	Second mortgages		No market
Hungary	Marginal	Life annuity - cash transfer of about 15-30 percent of the value of the dwelling; the annuity can also be assigned to another person than the owner Other equity release products	Financial institutions	Less developed market
Netherlands	Marginal	Selling in return for permanent right to live in it Personal loans with lower interest rate when house is collateral Mortgage equity withdrawal for elderly	Housing corporations Financial Institutions	No market

Portugal	No market for equity release options			No market
Slovenia	Marginal	Municipality of Ljubljana purchases dwelling; annuity minus non-profit level rent goes to previous owner Limited options with banks - debts need to be repaid by age 75	Local governments Financial institutions (limited)	No market
UK	Limited use, 1 percent of pensioners uses it, but broadly available, and younger households show interest	Lifetime mortgages -lump sum and/or income and interest-only mortgage -lump sum/ income and rolled-up interest loans (interest accumulates and is repaid when owner passes away) Home reversion schemes (household sells to reversion company)	Financial institutions Reversion company	Significant market

Sources: Countries' policy reports; *Reifner 2009

Reason why in the Netherlands interviewees did hear about reverse mortgages is because financial institutions offer similar products– that however do not exactly match the definition of reverse mortgages (see table 5.1).

Bequest motive

In all countries, for those who did not know about this type of product, the main principles were set out and interviewees were asked whether they would consider using such a product. In all countries, many interviewees stated that they would not consider using a reverse mortgage. Especially if interviewees have children, they regarded it as an inappropriate measure to heighten the living standard in old age. However, at the same time interviewees stated that if there would be a pressing need for money (which could be caused for instance by lower levels of pension income than expected) this option could be taken into consideration.

Besides little knowledge about reverse mortgages and a careful and conservative attitude, the most crucial factor that impacts on considerations about reverse mortgages seems the presence of children. This appears from the different responses of interviewees with children – who regarded a reverse mortgage as an inappropriate way to heighten the living standard – and people without children – who could more often imagine using such a product. Leaving housing wealth as a bequest seems a common thing to do and is often considered as self-evident.

"I would not do that [using mortgage equity withdrawal]. We bought this house after our child was born. I can die tomorrow but my son will have a place to live. I think that someone without children thinks about it. Those who do have children do not."
(Portuguese couple, 45-55 years old)

"Well, in this age getting into debt is among the last things to do and it is strictly a last resort. It can happen when one dies, children have to pay the debts still."
(Finnish interviewee, 65-75 years old)

"No, I wouldn't consider reverse mortgages. I have bought this house to be able to give my children something. This way, I can give them a starting capital, so that they are able to buy their own house. Even besides that, I wouldn't do that, because your house is no longer your own. It becomes property of the bank. It would feel like renting."
(Belgian woman, 25 to 35 years old)

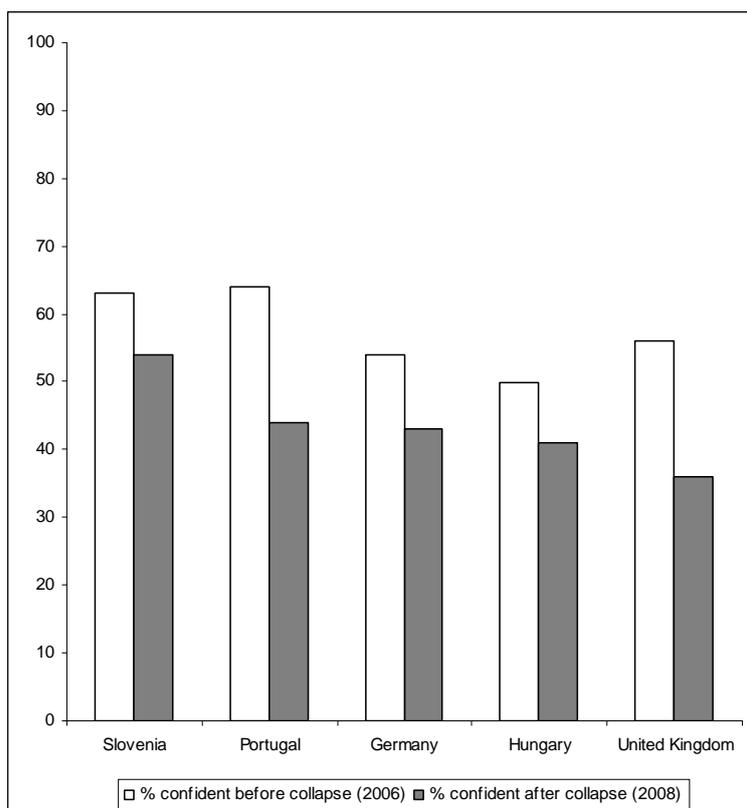
Independence from financial institutions

Furthermore, interviewees in all countries addressed the belief that one should not in old age become dependent (again) on a bank: there are risks attached to these type of products, they are perceived as complex, and there appears a distrust towards financial institutions.

Interviewees also expressed worries about the costs of such a product. Slovenian interviewees mentioned high interest rates in comparison to relatively limited gains. In the UK, some of the interviewees thought that reverse mortgages were no good value for money. In Portugal people feared hidden costs and also in the Netherlands high additional costs were feared. Another issue was the price evaluation by the banks. In the UK and Portugal, some interviewees thought that banks were not trustworthy and underestimated the value of their properties.

Additionally, interviewees explained to be highly concerned about the increasing mortgage debt. In Germany, first of all a reverse mortgage would sit uncomfortably with the aim to become an outright-owner during the life course, to become free of debt. Also in the Netherlands and Slovenia interviewees mentioned this aversion towards new mortgage debt at old age – it would mean losing (part of) the ownership of the 'home'. Then, furthermore, as one does not know how old one becomes, they fear that the debt would grow and could exceed the value of the dwelling. In the Netherlands, Germany and the UK, interviewees argued that this could cause problems. Perhaps old people would be evicted – which they considered as strongly inappropriate. Another related risk is that children could be left a debt as a bequest – the Finnish interviewees also mentioned this.

Figure 5.6 Confidence in financial institutions



Source: Gallup, 2009

In Germany, interviewees generally appeared to set out most extensively the pros and cons of the reverse mortgage. Some interviewees thought it is troublesome that even higher educated households often cannot fully understand the risks and conditions of financial products such as a reverse mortgage. Households limited knowledge and understanding is probably also the

reason why for interviewees in all countries 'trust' is such an important issue. It seems that interviewees in Finland and to some extent the Netherlands trust financial institutions more than in other countries; in Germany and Slovenia interviewees trust some non-profit financial institutions (e.g. Sparkasse); whereas in the other countries there seemed to be less trust. In Belgium interviewees stated to rather deal with private persons (as is currently practice see table 5.1), than with banks. In all countries interviewees referred to alternatives for reverse mortgages, such as cutting expenses, selling the dwelling or letting. These options would make sure that an owner-occupier stays 'in control'.

Figure 5.5 shows for 5 countries within this study the level of trust in financial institutions. Unsurprisingly, level of trust went down in all countries as a consequence of the financial crisis. Least trust currently is found in the UK; most in Slovenia.

Reverse mortgage as a last resort

However, reverse mortgages were not completely excluded from households' strategies. In all countries interviewees could imagine using a reverse mortgage as a last resort. Further, as mentioned above, households without children in all countries, except in Slovenia, could more often imagine considering this financial product. In the Netherlands, Finland, the UK and Germany, also some interviewees with children could imagine considering. Some speak in dramatic terms, as 'people need to be desperate' and 'only if there is a pressing need'. They find it difficult to envisage that someone would just use mortgage equity release to heighten a living standard. However, in the Netherlands, a self-employed interviewee who had the plan to sell his dwelling in retirement, indicated he would use a reverse mortgage if house prices had dropped. Additionally, in the Netherlands and Germany, the youngest and middle age-group seemed more open to the idea of a reverse mortgage than the oldest.

In Germany, recently the pension system has been changed radically and statutory pension incomes will be substantially lower for future older generations – more private savings are necessary to sustain a certain living standard in retirement. Part of the German interviewees in the middle age-group felt as if they were too late to save sufficiently; and for some of them, therefore the reverse mortgage sounded an interesting option that they would consider together with other options to sustain their living standard in old age.

5.4 Why not consume housing equity

One of the findings of the macro studies in work package 1 of the Demhow project was that current older generations do not consume their savings and housing wealth as much as they could. Interviewees were asked to elaborate on this.

Finally, we would like you to reflect on one of our research findings from a different part of the project which was undertaken by economists: People save money for risks and older age. They often save more than might be necessary and when they are in old age they do not want to spend all their savings. And they choose not to use the equity stored in the house.

Why do you think people behave like this?

In some countries people elaborated more on the question why older people did not consume their 'savings', and less on why they did not consume their 'housing wealth'. The reason for this seems to be that many interviewees found spending – or not spending – savings a more relevant issue than consuming housing wealth. The majority of interviewees thought of housing wealth as an illiquid asset. One would have to move to cash and consume. As seen above, the mortgage equity release products were not very well known, and often not seen as an appropriate way to release housing equity. Consequently, in Finland, interviewees did not elaborate much on the consumption of housing wealth. Also German interviewees indicated to feel uncomfortable with the subject, as 'they did not really know what else there would be to do with housing equity'. Nevertheless, interviewees did elaborate at least to some extent on the issue, and interviewees across countries appeared to think in rather similar ways.

Housing equity as a precautionary fund

The most common reason was that the owner-occupied dwelling represents a precautionary fund, which people would want to keep as long as possible. People do not know what kind of occurrences they would still encounter in life. They normally have to get by on a lower income than their income from work, and therefore feel the need to be prudent and careful. Old age brings health risks, which could potentially pressurize the financial situation. Interviewees mentioned potential changes in social security, changes in the welfare provision, which could have a negative effect on their future financial situation. Further, people cannot predict how old they become.

They might be frightened of losing the house. People want to be able to pay for things and not be a burden. They don't know how long they are going to live. And perhaps as you get older, you get more cautious. I think people also tend to think they are poorer than they are. How do you know how much money you will need?

(British couple 45-55)

Loss aversion

Another common response was that consumption of housing wealth implies that older owner-occupiers would 'lose' what they owned. In all countries interviewees mentioned the attachment to the 'home'. The house is not only an investment good, it is also – and mostly in the first place – consumption good. After discussing the 'irrational excessive saving behaviour' of the current elderly, a Finnish interviewee states the following:

I understand it much better that one does not want to sell one's dwelling. It is like a lot of memories get into these walls over the years, so that, it can be much more valuable than the bank account... well, it is dear to you, that dwelling. But I can't understand how an account can be dear to anyone, a bank account. That one does not want to give up the dwelling that I understand much better.

(Finnish couple 25-35)

More generally interviewees explained that the dwelling represents a certain living standard, which significantly adds to the quality of life. If one would have to move to release housing equity, one would lose this. In Germany, interviewees emphasised the great attachment to their homes, by referring to the fact that owner-occupiers put a lot of effort in renovation and sometimes even self-constructed their dwellings. In Portugal and the Netherlands, it was emphasised that this attachment would be something that would typically increase with age. The current younger groups could still imagine moving in old age, but when they would reach their old age, they would probably be similarly attached to their home as the current elderly.

Interviewees in Germany, Belgium, the UK and Portugal mentioned that consuming housing wealth would mean that all these years of work, of asset-building would vanish at high speed. This seemed very unattractive to them, it would cause an unpleasant feeling. In case they would make use of equity release products, they would alter from independent owner-occupiers into dependent mortgagees. In Belgium and the Netherlands interviewees remarked that it would be like renting again. In contrast, the aim in life would be to become increasingly independent during the life course. Therefore, equity release was felt to be inappropriate. The dwelling would be from the bank instead of them. Moreover, when they would pass away, the property would go to the bank instead of to the children. Once again, this was regarded as an unpleasant prospect.

Some interviewees argued that having savings and having assets represents power, respect and value. Overall, there seems to be a deep fear to end up with nothing.

It's the way they [the current elderly] are brought up. It is hard work to save all that money and they are reluctant to spend it. You become conditioned to your own economy. I think if you started to spend money – it is easier to start than to stop... you can lose control.

(British couple, 65-75)

Because it gives such a good feeling to have something. To have some reserves. Very old-fashioned. Just the feel of it is convenient. And then, if it is not for you, it is for your children. That's important.

(Dutch couple, 45-55)

Bequest motive

The bequest motive appeared already linked to other reasons not to consume housing equity. First it is linked to the precautionary motive: as was explained in the Slovenian report: 'It is better to leave something behind, than to be paid for by others'. Older people did not want to become a burden for their children in their old age, did not want to become financially dependent on them. This often seems to be a stronger motive to not spend housing equity than solely the wish to pass housing wealth on to the children. For instance in Belgium and Portugal it was noticed that surprisingly older people did not mention the bequest motive explicitly, precaution appeared for them the main argument.

It could also be the case that older people are scared to be a burden for their children. They are used to taking care of themselves.

(Belgian woman, 45 to 55 years old)

The bequest motive also becomes evident when interviewees think about reverse mortgages. The idea that the property goes to the bank instead of to the children appears uncomfortable. Additionally, in all countries interviewees suggested that older people take into account the financial futures of their children when deciding upon consumption of housing wealth. In Hungary, housing wealth appeared crucially important for the future of the children. Solidarity among family members is generally expected, as people cannot rely on welfare provision as a safety net. Additionally, the transfer of dwellings is common practice. Therefore consumption of housing wealth would have a great impact on the traditional ways of asset redistribution among family members. Also for German interviewees leaving a bequest appeared important. They feared social decline in the future that could negatively affect the financial circumstances of their children. In Chapter 2, figure 2.3 gives an indication of how important intergenerational transfers are in the eight countries.

Better you save too much than too little and then suddenly you don't have anything left in old age. You still can pass it on to your children to build up an existence for them. I think that's also a little bit like thinking of the children and saying: I don't need that much money in old age anyway. I don't have that much anymore, I don't travel, don't go to cinema, so what do I need the money for? I rather give it to my children.

(German interviewee, 25-35)

Reduced needs

Another explanation why older people do not consume their housing equity is that older people would not 'need' to do so. They have sufficient income, moreover, their needs diminish. This is mentioned in Belgium, the Netherlands, Finland, Slovenia and Germany.

Your needs at a certain age are less compared to when you were young. You have experienced a lot already. You have been out for dinner to a restaurant. You have eaten lobster. You have been to many different continents, and so on. At a certain point you reach a saturation point.

(Belgian man, 65 to 75 years old)

Habit to save, not spend

What is more, older people have the habit to save; this would be part of their culture, of their socialization. For instance, in Slovenia interviewees mentioned that older people are more used to modest living than younger people. In Finland, Germany and the Netherlands, concepts such as Protestantism, Lutheranism and Calvinism were brought up. They all referred to beliefs that saving is 'good' and having debts is 'bad'. A general aim during a life course would be to become debt-free once one reaches old age. Therefore, using an equity release product would break through this common belief. In Belgium and the Netherlands interviewees described the use of mortgage equity release products as inappropriate luxury, or excessive spending.

However, in all countries, except Hungary, it was argued that the younger people thought rather different than older people. In Slovenia it was described that the youngest age-group was cynical about the non-spending behaviour of the elderly; also the Finnish interviewees thought the oldest age-group should enjoy and spend more of their savings as 'they won't have pockets in their shroud'. In most countries, it was suggested that younger people have generally experienced more prosperity, and perhaps therefore would more easily spend their savings, and assets in old age. Older people instead have often experienced financial hardship. In Belgium, Finland, Germany, the Netherlands and the UK interviewees referred to the effects of the Second World War on people's living standard at that time.

People who have experienced the war are scared of never having enough. Social welfare was not back then what it is now. It is stuck in people's brain, also in mine. It is truly stuck.

(Belgian man, 65 to 75 years old)

In the UK, interviewees additionally mentioned the collective memory of historic policy responses to poverty in England. These led to very harsh treatment of people who lacked the means to support themselves. In Portugal interviewees referred to more recent times of deprivation during the dictatorial regime (1926-1974).

Before the 25th of April [of 1974 – end of dictatorial regime] there was nearly no pension system. Civil servants had one but not the others. Thus people got used to save, to build assets in order to face any emergency. Because social security was terrible. Terrible or even nonexistent.

(Portuguese woman, 45 to 55 years old)

Reluctance against moving

Various researchers found that interviewees in the youngest and middle age-group were more willing to consider moving than older. This difference between the between the non-retired and retired can also be found in the figure 5.5 below. In Portugal and the Netherlands, the difference between the age-groups has been explained (partly) as an age-affect. Hence, if the youngest group reaches old age, they might be similarly reluctant to move. However, also there are indications that mobility among younger households is higher, and future generations might be more used to moving and regarding their dwelling as a financial asset. Research conducted in the United States has indicated that retirees are 5 times more loss averse than the average person (AARP and ACLI 2007). It is unclear to what extent this is due to an age or cohort effect.

The figure 5.5 on the left shows considerations to move or to borrow against the home of the non-retired, the working generations; whereas the figure on the right shows the plans and carried out plans of the retired. In the UK, Finland and Germany the plans of the working generations seem to deviate most strongly from the retired generation.

5.5 Conclusions

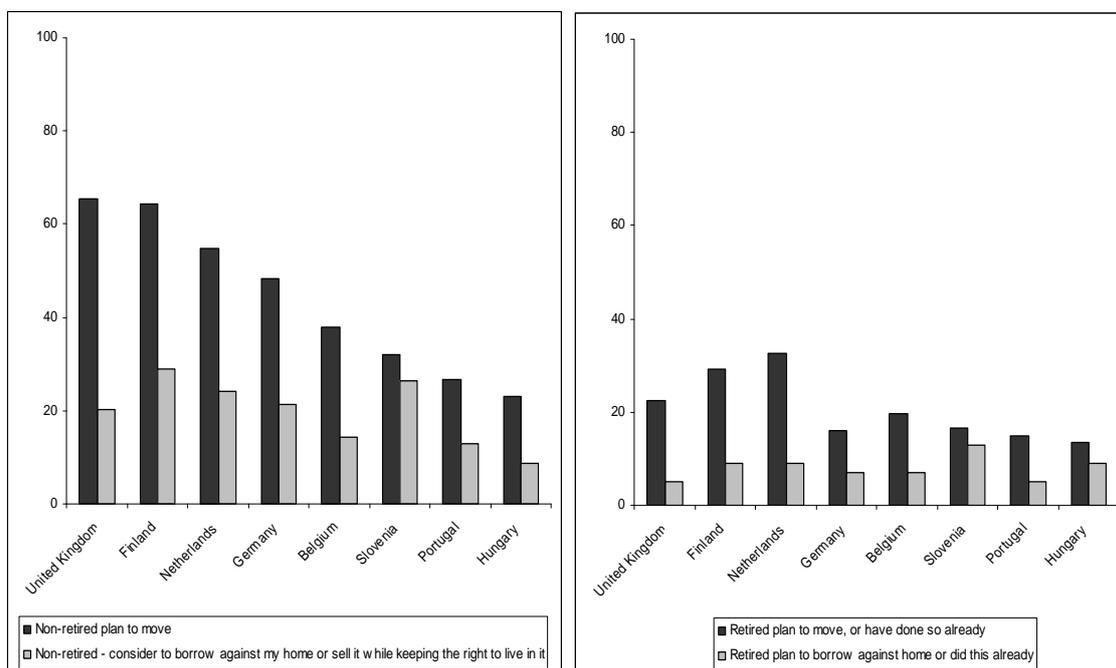
In this chapter we explored to what extent housing equity plays a role in households financial strategies towards old age. There are three main ways in which owner-occupiers can profit from their housing wealth. First, in old age owner-occupiers are normally outright-owners, which means they have strongly reduced housing expenses if compared to tenants. Second, they can cash the housing equity by selling the dwelling, and subsequently buy a cheaper dwelling or rent one. Third, there is the more recently developed option of mortgage equity release. This mortgage enables retirees to release their housing wealth, while they can remain living in the dwelling. Following the line of reasoning of the Life cycle theories, especially the last option is often seen as one with potential for the future, as it would change housing wealth from an illiquid to a liquid asset.

The interviews show that first and foremost, the owner-occupied dwelling represents a 'home', a certain living standard and when being an outright owner it represents independence. In the second place, it represents wealth. Owner-occupiers are often aware of the value of their dwelling. The older generations have made substantial gains on the housing market and are as a result asset-rich.

If the going gets tough, the home represents a nest-egg that can be cashed by selling. In various countries people spend housing equity on care in a residential setting. Especially in Slovenia this appeared important and a common use of housing equity. Further, in countries where children play a crucial role in caring for parents, in Hungary and Portugal, some people without children used or planned to use housing equity to receive care; they could leave the dwelling as a bequest to a person (often someone within the extended family) who would take care of them.

Additionally, in case the pension income is too low to make ends meet every month, housing wealth also comes up in financial strategies. Most commonly people would decide to move to a cheaper dwelling. The UK stands out here, as the youngest group speaks about climbing down the housing ladder in retirement to cash housing equity: investing in bricks and mortar is regarded as preferable to investment in private pension funds. Interestingly, in all countries the decision to move is usually not only the outcome of the need to have additional income, but also the need to reduce expenses on maintenance. Maintenance is for many older owner-occupiers a burden, both in physical and financial terms.

Figure 5.7 Plans and considerations of the 'non-retired' and the (carried out) plans of the 'retired' ⁹



Source: Eurobarometer, Family policy, 2008

It needs mentioning that buying something cheaper is not an option for all owner-occupiers. It is mostly acceptable and viable for owner-occupiers with a relatively expensive property. Those

⁹ Plans to move are most likely asked to all respondents, hence both owner-occupiers and tenants. For Germany it needs to be taken into account that many respondents who indicate to plan to move will be tenants. The second question about borrowing against the dwelling has probably been asked only to owner-occupiers. It is unclear whether the outcomes shown are only for owner-occupiers, or also the tenants.

in the lower priced segment of the market have fewer possibilities to cash a significant amount of housing wealth and maintain a reasonable standard of living. Only in the Netherlands the rental sector was an acceptable alternative. In other countries, people in these lower priced dwellings regarded mortgage equity release as the only realistic option to release housing equity.

In countries where the mortgage market plays an important role in financing the purchase of a dwelling, mortgage repayment typically ends before retirement. Consequently, owner-occupiers are aware of the reduced housing expenses and hence a higher disposable income. This financial advantage is even more pronounced in countries where the rental market covers a large part of the housing stock. Only in Germany, retirement planning is one of the arguments to purchase a dwelling early in the life course; because in old age, the owner-occupiers compared to tenants, are financially better-off as they have lower housing expenses.

Overall, the financial products with which the retiree can release housing equity are not encountered with great enthusiasm. There are two main factors that have an impact. First, there is the bequest motive. People without children appear more open to mortgage equity release in old age than people with children. This is most noticeable in countries where financial futures of children are uncertain, where the welfare system does not provide them a safety net. Here, the dwelling as a bequest is essential in family strategies. However, in countries where children are better-off, owner-occupiers with children do not want to become a burden for their children. They state to be uncertain about future expenses (e.g. on health care); therefore, they wish to keep the housing equity as a safety net.

A second crucial factor why equity release products are not encountered with great enthusiasm is the trust people have in the providers of equity release products. Taking out a reverse mortgage means: losing control, running risks and becoming dependent (some reason by analogy with renting). Hence, if the provider seems not trustworthy, has a bad reputation, the chances that people will choose to use this financial instrument are lower. Financial institutions were already not fully trusted before the financial crisis, and current financial crisis has negatively affected the reputation of the financial sector. It appeared that government related financial institutions (such as the *Sparkasse* in Germany) are regarded as reliable institutions, from which people could consider taking out equity release products.

To conclude, the current and next generation of retirees that became owner-occupiers during their life course have gained a lot from the housing market. They are asset-rich in retirement. Earlier chapters revealed that financial planning for care in old age is poor. With respect to the pension planning, we found that especially if policies change and when the economic crisis hits, people reacted with a 'wait-and-see-strategy'. Therefore we expect that if pension incomes become lower and care becomes more expensive, housing wealth will become a more relevant source of wealth in the financial strategies of older owner-occupiers.

6 Conclusions

This report has presented the findings from the qualitative work package of the DEMHOW EC Seventh Framework Programme. It has drawn on interviews with 240 households across eight different countries.

European countries are under increasingly pressure to decrease public expenditure including in the area of collective welfare provision. An ageing Europe, combined with global economic stresses, means that national governments are interested in encouraging individuals to take greater responsibility for their financial future. Within this context, the DEMHOW project sought to investigate the current and potential future role of housing equity in household retirement strategies.

The main research hypothesis of the research was that households will place a higher value on the role of private assets, in particular housing equity, than collective forms of provision for their financial plans. We also expected younger cohorts to do this more than their older counterparts since younger people are more likely to be affected – in the longer-term - by pressures on collective pensions and other welfare provision. We also expected households without children to use their housing equity more than households with children as they are less likely to be influenced by a desire to leave a legacy (Rowlingson, 2006).

Below, the main findings of the research are reviewed, with the chapter ending by reviewing how these findings inform the key theoretical debates that were the starting point of the research.

6.1 Household strategies and housing

Households buy housing for a multitude of reasons. Rarely is there one reason in a country, rather people are informed by a number of financial and emotional decisions. Householders tend to buy when they can afford to, often because it is seen as cheaper than renting (although not in all countries), and because renting is seen as 'dead money'. In addition, householders buy because it is seen as the cultural norm – the thing that one does when one can afford to and/or because owning is the main method of deriving a dwelling (particularly the case in transition countries such as Hungary). Some will also be influenced by life-stages around setting up home as a couple or family. The desire to leave property for children is a minor motive in house purchase, with the exception of Hungary where equity is central to family financial strategies. The family however played a central role in enabling younger people to buy a house in several countries (including Slovenia, Portugal, the Netherlands, Belgium and Finland).

Retirement planning was not usually the primary motive for buying a home, only in Germany was buying a house explicitly mentioned as pension strategy. This may be because of the dominant role of the rental sector in Germany where households are quite content to rent and there is no pressure to buy. It is possible that German households are more reflective than homeowners in countries such as the UK where buying was regarded as 'just what you do'. However most households see the financial advantages in owning a home and view home ownership as a good investment (particularly in the longer term, and compared to shares). House price developments are in general not seen as a risk, especially as most people in all eight countries state that they plan to stay in the house for many years if not a lifetime. Country specific factors may significantly influence the speed at which home owners attempt to pay off their mortgage (obviously one of the main ways of accruing equity, along with house price rises). For example, in the Netherlands, significant tax incentives (alongside adequate retirement pensions/ incomes) mean that many people keep a mortgage into retirement. In contrast, the serious economic problems in Hungary means that people may try and repay mortgage as quickly as possible. Nonetheless, one of vignettes suggested that householders would prioritise paying off a mortgage if they had extra money available. The findings from our

interviews would suggest that fiscal policies can discourage the building of equity (for example, in the Netherlands, Finland, Belgium).

We found that second properties played an important role in Hungary, Portugal and Slovenia, and also in Finland. Many interviewees had holiday home or investment houses. Moreover, in for example Belgium and the Netherlands the younger generation considers investing in second properties as a wise strategy. It appeared that the younger cohorts were more inclined to plan to invest in financial assets and also second properties, while the older cohorts put more emphasis on saving.

6.2 Pensions and housing

Our findings suggested that pension planning was approached differently by the older and younger cohorts of interviewees. The non-retired interviewees expected to retire at a later age than the oldest interviewees. And the younger households believed it was increasingly unlikely that the state would be able to provide in the future and individuals would have to take more responsibility. Older and middle aged respondents tended to see the state as having a more central role, remarking that as they had paid taxes, and made contributions throughout their working lives then the state was responsible for providing them with a pension.

In comparison with the younger age-groups, the oldest relied more on the public redistributive pensions – that are financed on a pay-as-you-go basis – and less on their own active saving strategy. In all countries, the youngest and the middle age-group planned to save, or actually saved in personal pension savings schemes or built up savings themselves for old age. Of all cohorts, the middle group appeared to be most worried as they felt that they did not have enough time available to adjust to new policies. In some countries, the voluntary personal pension schemes are fiscally attractive ways to save. These tax advantages appeared to be important factors for some of the interviewees to decide to start saving for retirement. A number of respondents also said the state had a role in educating and informing people about pensions, the need to save, the different ways of saving for a pension, and the amount they would receive, as people found the existing systems in their respective countries confusing. It appeared that too much policy change might also make people 'wait and see', actually reducing planning rather than encouraging it. However, there was consensus that people are likely to need to stay in employment until a later age in the future, and householders appeared quite happy to do this.

6.3 Using housing for care?

A key finding was that the role of home ownership was rarely a key driver in decision making around care. This may have partly reflected the fact that very few householders had made explicit plans for care in the future. Some hoped that family members would care for them but felt that this was unlikely. Many hoped to rely on the help of their partner. Where professional home care was available in the country (particularly prominent in the Netherlands, Finland and Belgium), people often preferred this to enable people to remain in their home for as long as possible. Institutional care was usually seen as a last resort. Housing most often was mentioned in terms of plans to downsize and/or move to more appropriate accommodation. In Hungary, however, the value of the house was explicitly tied into care strategies. Here a bequest strategy was widely practiced of leaving the house to one child who then cared for you in return.

In terms of paying for care, people realised that the state was likely to struggle with meeting the care needs of an ageing population in the future. Here, some people did discuss the potential role of housing equity and felt that it was likely that they would have to use their home to pay for care. However, there was a great reluctance to do so as they felt that they had saved all their life and many wished to leave their property to their children. However, interestingly, Slovenians were most commonly agreeing with the use of equity for care and were also the most likely to mention institutional care as an option for later life.

An interesting finding was that the youngest age group in a number of countries were more likely to suggest that an elderly parent should move in with one of their children than older respondents. This might mean they are unlikely to see the need to build up equity for future care needs. However, this might be an age rather than cohort effect as older respondents with experience of (or knowledge of others) caring for an older relative felt they did not want to be a burden on their children. The younger cohort might develop these similar views with experience. However, either way, this means that older cohorts are more likely to be motivated to make alternative plans for care. With the proviso that planning appears to be poor in this area, housing equity might reluctantly be part of any eventual strategy.

6.4 Using housing equity

When discussing the use of housing equity, once again, interviewees stressed that first and foremost, the owner-occupied dwelling represented a 'home', a good living standard and independence (when debt-free). However, housing equity is seen as important in a number of ways. Firstly, the home represents a nest-egg, that can be cashed (mainly by selling) if needed. People may need to use their housing equity for care, especially if they do not have children (or family is not the main method of care in the country). Additionally, if income appears too low in retirement (and maintenance costs high) to make ends meet, some people can decide to move to a cheaper dwelling. However, this later strategy is not available to those in the lower priced segment of the market and, apart from in the Netherlands, a move to the rental sector was not seen as an acceptable alternative. Secondly, most owner-occupiers are aware of the reduced housing expenses when a mortgage is paid off and hence a higher disposable income. This financial advantage is even more pronounced in countries where the rental market covers a large part of the housing stock (in particular, Germany).

Where financial products are available, home owners may also be able to release housing equity whilst remaining in their home. However, this research found that these financial products (or the idea of them where people did not have any knowledge of this possibility) were not encountered with great enthusiasm. Two key barriers were evident. Firstly, people mentioned a bequest motive, especially important in some countries like Hungary. People without children appeared more open to mortgage equity release in old age than people with children. Secondly, people seemed to have low trust in the providers of equity release products. Taking out a reverse mortgage means: losing control, running risks and becoming dependent (some reason by analogy with renting). Financial institutions were not fully trusted before the financial crisis, and current financial crisis has reduced trust further. It appeared that government related financial institutions (such as the *Sparkasse* in Germany) were regarded as more reliable institutions.

Based on the findings, should governments wish to promote equity release options, non-profit or government related financial institutions are likely to be more successful in doing so. However, in some countries resistance is likely to be strong for example where the role of housing wealth within family strategies is seen as crucial (and may therefore undermine existing family based planning mechanisms). Those with relatively less equity are also most likely to need to use equity release products, whilst others are more likely to choose the option of downsizing to release funds. Finally, the inequality between tenants and owner-occupiers will also become more apparent. In short, relatively well-off householders are least likely to be impacted by a policy of reliance on housing equity for future financial planning.

6.5 Reflections on key theoretical debates

The report outlined two key theoretical debates which informed the design of the research. The qualitative work has provided a number of insights at the micro level of household behaviour which may be useful in understanding these theories and macro level trends that have been evidenced in the quantitative work for DEMHOW.

Is there a trade-off between homeownership and welfare?

An association has been observed between levels of pensions and level of homeownership (Castles, 1998). More generally, reductions of government expenditure on welfare and increasing rates of homeownership appear to be correlated. However, the causal mechanisms underpinning the housing-pensions trade-off is not clear – it may be that housing expenditure acts as a constraint and/or that housing assets reduce needs.

Examining the findings of the qualitative work, there is some evidence of a shift in ways of thinking about housing equity in many Western/ Northern EU member states. Whilst for most people housing first and foremost represents a valued consumption good, there is some evidence, particularly in younger cohorts, that some plan to buy (usually) second properties in order to contribute to future pension and other financial needs. This primarily appears to be driven by perceptions of decreases in welfare provision and/or lack of trust of public-private systems of pension provision. This has recently been underlined by the economic crisis. More generally, messages from national governments about how they will not be able to sustain public provision in the future appear to be recognised at the micro level. Whilst resisted to some extent, this realisation may be affecting some financial planning amongst younger cohorts.

A different pattern can be observed in Hungary and Slovenia. Here, households are used to relying on their households and wider family planning for future events. Pension coverage is low, and participation in the informal economy high, whilst the vast majority have some housing resources available to them (most people are homeowners and majority of younger households do not have a mortgage due to importance of inter-generational transfers). Here, households are doing as they have been doing for a long time, making provisions informally without looking to public welfare systems.

We found some evidence of households building up equity and entering home ownership accompanying a reduced reliance on welfare systems in UK and Germany. The UK stands out here, as interviewees in the youngest group talk about climbing down the housing ladder in retirement to cash housing equity: investing in bricks and mortar is regarded as preferable to investment in private pension funds. In Germany, retirement planning is one of the arguments to purchase a dwelling early in the life course; because in old age, the owner-occupiers compared to tenants, are financially better-off as they have lower housing expenses. In other countries the younger generation relies less on collective pensions and considers home ownership as a good investment. However, they intend to invest and save in the future, but the question is to which extent they will really succeed in doing this. Any how, housing equity is therefore a may be implicit pension strategy. Kemeny's argument that housing expenditure constrains people's ability to build up a pension when they are younger does however appear to bear out. Housing debt has increased substantially in the last decade, especially so in some countries like the UK. For the younger cohorts, buying a house might mean putting off other types of expenditure until these could be better afforded.

Do people operate to a life cycle model?

The life cycle model (LCM), developed within the discipline of economics, can be thought of as a strategy for the temporal redistribution of income, the basic premise being that, at any one time, individuals set their present level of consumption in relation to their present level of wealth and their expected future income (Deaton, 1992). Basically, people are presumed to build up savings when their income exceeds their consumption, and then utilise those savings in retirement when consumption needs may exceed income.

The findings of the qualitative work-package supported the general thesis of households building up resources during their working life. However, many householders appeared quite resistant to the idea of utilising the resources they had built up (including equity) during retirement. Rather than using their assets, savings and equity to supplement their income in retirement, many older people chose to live more modestly and even to save money in

retirement, and appeared to take some pride in this. As well as people keeping in mind the bequest strategy, they often simply could not predict their future needs (how long they would live, whether they would need care etc) and therefore the best strategy was seen as holding onto resources for as long as possible. Interestingly, although many people explained that their savings were a safety-net, that the money was for a 'rainy day' or an emergency, few could imagine a situation where they would wish to draw on these resources. Moreover, all householders, in particular those with children, did not like the idea of ending their life with no finances to their name. This idea did not sit comfortably with a lifetime of saving and attempting to be self-sufficient and in control of one's destiny. This finding suggests that policy cannot presume that householders will operate to the life-cycle 'inverse U shape' logic. Policies are not likely to be popular or successful if they leave householders with nothing. More nuanced policies are needed that borrow from psychological theories rather than economics alone.

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