Master of Public Health

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FINANCING LONG TERM CARE :

COULD EQUITY RELEASE BE AN HELPFUL OPTION

FOR OLDER HOME-OWNERS ?

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ABSTRACT

ENGLISH

The ageing of the french population will have an important impact on long term care demand. Individuals and families face today high financial burden of the involved costs. However, as the vast majority of older people are home-owners; the question of older people financing their own future dependance has recently risen. Beyond the soon-to-be reform of the public financing system, innovating in equity release seems so an interesting option. if these people could draw on their housing equity easily and safely, they would afford additional practical help which would improve their quality of life and make it possible for them to continue to live in their home.

This paper studies the financing system of long-term care and the revenue & asset situation of older people. It also studies the strenghs and weaknesses of existing equity release options.

Finally, we provide policy recommendations based on our views on how equity release could be better suitable for older people.

KEYWORD: LONG-TERM CARE, OLDER PEOPLE, EQUITY RELEASE, REVERSE MORTGAGE

FRANÇAIS

Le vieillissement de la population française va fortement impacter le niveau de demande de services liés à la perte d'autonomie. Les personnes et leurs familles font aujourd'hui face à des restes à charge de plus en plus importants. Pourtant, alors que la vaste majorité des personnes âgées en perte d'autonomie est propriétaire de son logement, la thématique d'un auto-financement plus large de leur future dépendance par les personnes âgées s'est développée récemment. Au-delà de la prochaine réforme sur le financement de la perte d'autonomie, il semble donc intéressant d'explorer le champ d'innovation de la mobilisation du patrimoine. Si ces personnes pouvaient extraire de manière simple et sécurisée des liquidités de leur logement, ils pourraient s'offrir davantage de services. Cela leur permettrait d'améliorer leur qualité de vie tout en continuant à vivre chez eux.

Cette étude aborde, d'une part, le système de financement de la perte d'autonomie et, d'autre part, la situation patrimoniale des personnes âgées. Elle présente également les forces et les faiblesses des possibilités actuelles de mobilisation du patrimoine. Enfin, nous formulerons des recommandations sur la manière possible de rendre la mobilisation du patrimoine mieux adaptée aux problématiques des personnes âgées.

MOTS-CLÉS: DÉPENDANCE, PERSONNES AGEES, VIAGER, PRET VIAGER HYPOTHÉCAIRE

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I. AGEING POPULATION: A CHALLENGE FOR THE LONG TERM CARE SYSTEM

The ageing of the french population increases the number of people with a loss of autonomy, and the demand for long-term care: personal and assistance services for the everyday activities like eating, bathing, dressing etc.

In order to finance it, the financing system of LTC is composed by a public personal allowance, private insurance, out of pocket payments and support from the families.

But due to the rising costs, extra sources of funding are needed to lower the financial burden for individuals and their families.

a. The ageing of the french population

The central scenario of the last demographic projections [Robert-Bobée, 2006] of the INSEE (national statistics agency) estimates that France will have 70 millions of inhabitants at the 1st January 2050, which represents an increase of 9.3 millions from 2005.

The number of people over 60 years old would grow from 12.8 millions in 2005, to 20.9 in 2035 and to 22.3 in 2050, which means it is almost doubling (+45%) in 45 years.

In the same period of time, the number of people over 75 would follow the same evolution, with a delay of 15 years. In 2050, they would represent 15.6% of the population, related to 8% today.

This scenario is depending on a vast amount of hypothesis, such as fertility, mortality and immigration. Therefore, regular updates are needed to verify the accurency of the hypothesis.

b. The impact of ageing on the number of dependant people

LTC concerns people who depend on assistance for their everyday activities (eating, bathing, dressing etc.). Saltman (2006) proposes an interesting definition of LTC:

“Long-term care is a complex area that incorporates a broad mix of medical, social, and residential (housing) dimensions. Three general types of service groupings can be distinguished: home care, sheltered housing or old-age homes, and nursing homes. In addition, there may be a wide variety of day programs outside the home but in support of home care, including elder day centers, respite care centers, and educational or support programs for informal caregivers. Each type of service encompasses an additional range of distinctions. Home care can be provided by informal (nonprofessional, usually volunteer) or formal (professional) providers and can incorporate a wide range of clinical (nursing, drug therapy, physical therapy), social (food preparation, cleaning, shopping), and even physical construction (installing hydraulic lifts, renovating bathrooms and kitchens) activities. Sheltered housing and old-age homes in Western Europe can be operated or paid for by public municipal, not-for-profit voluntary, or for-profit commercial organizations.”

Forecasting future needs is a difficult but necessary task. It requires not only to know the relative number of dependent elderly in the future, but also to allocate those individuals among various types of LTC: formal vs. informal, private vs. public. For the first step, we have goods forecasts of the future population structure.

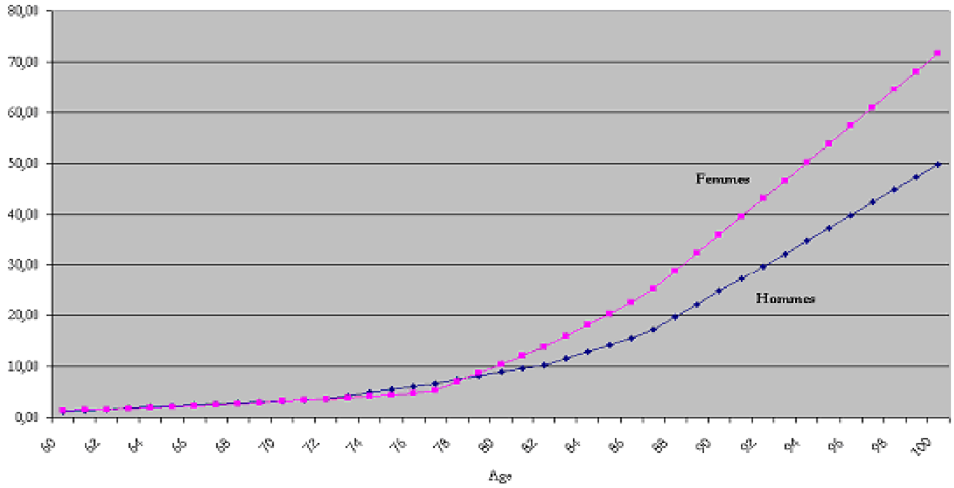
As ageing has a positive effect on dependancy, the growth of people over 75 years old should lead to an increase of the number of dependant people. In fact, the relation between these two populations is rather complex for two reasons :

- medical, technical or drug improvments or even early stage detection process of pathologies can impact the prevalence of dependancy ;
- the dependancy can be affected by social determinants which are difficult to calculate and to anticipate.

Projections of the number of dependant people are based on recent trends observed in studies, but the debate still exists between researchers in favor Estimates of futur proportions of dependant older people are controversial

The HID study shows an strong increase of prevalence of dependance from the age of 80 years old and above. The woman’s prevalence is higher than the man’s, not only due to epidemiological factors, but also due to a higher life expectancy.

Graph. 1 Incidence rate of loss of autonomy, per age and per sex, in France (HID study)

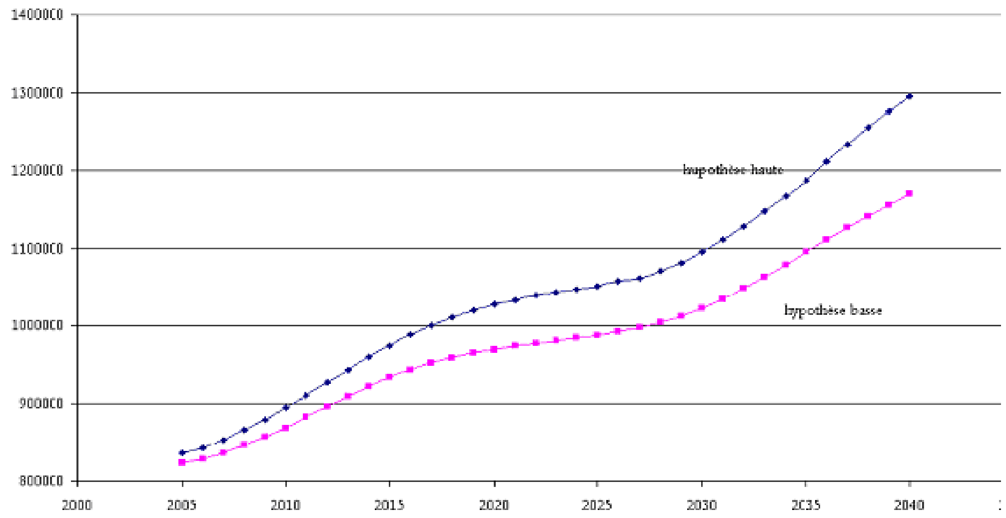


Source : INSEE, HID study

Projections of the number of dependant people in the next decades have to be considered very carefully, because a lot of parameters are unknown (morbidity rate, impact of the progress of healthcare, new behaviors...) An interesting discussion on the debate surrounding the projection of the french number of dependant people in 2025 can be found in the report written by Hélène Gisserot "Perspectives financières de la dépendance des personnes âgées à l'horizon 2025 : prévisions et marges de choix".

In 2004, INSEE (the french official statistics institution) established two scenarios, an upper and a lower one, based on projections from the HID study. The number of dependant people entitled to APA (the public allowance), shoud increase between 21.2% and 28.5% from 2000 to 2020, and in the same proportions (between 21% and 26%) in the following 20 years.

Graph. 2. Projection of the number of dependent older people, in France



Source: DREES 2006

This projection is characterized by a first fastening between 2006 and 2013, followed by a period of time of relative moderation of the evolution of the number of dependant older people. This is due to the arrival at older age of the undernumbered generation of World War 1.

If we consider a median scenario, the number of dependant older people should increase of 20% until 2020 (on a period of fifteen years) and of 23% between 2020 and 2040 (on a period of twenty years).

It should represent an increase of 1% per year, but this evolution will not be linear, as two fast increase periods will take place between 2005 and 2019 and between 2030 and 2040.

Depending on the chosen scenario, there would therefore be between 1.2 and 1.3 million dependent people in 2040.

c. Forecasting the long term care (LTC) needs

As we have already mentioned, LTC is provided in different settings: formally and informally. Formal care can be provided at home or in various types of institutions, including nursing homes and long-stay hospitals. At the European level, assuming a pure demographic scenario under which the probability, for any age and gender, of receiving formal care at home and formal care in an institution remains constant at the 2007 level, the European Commission [2009] obtains a rather dramatic increase in the demand of for all types of care. Specifically, the number of dependent people receiving care in an institution would increase by 185% in EU27 (155% in EU10) over the period 2007-2060; the number of people reiceiving formal care at home would increase by 151% un EU27 (171 for EU10) over the same period. Finally, the number of dependents relying only on informal care would increase by 84% in EU27 (119% for EU10).

The European Commission projects an increase of public expenditure by 115% on average for the EU27 over the period 2007-2060. The projected increase ranges from 65% in France and the United Kingdom to 175% and above in the Czech Republic, Spain, Malta, Poland, Romania and Slovakia. The gap between the need for care and the supply of informal care will increase du to the growing numbers of elderly persons and to a likely reduction in the supply of informal care within households (although the scale of this effect will depend on the employment rates of women, among other factors).

II THE FRENCH FINANCING SYSTEM OF LONG TERM CARE

The demographic projections indicates a growing need of LTC. The complex financing system will be put under pressure, to find new sources of funding.

a. Public funding of the loss of autonomy

There are two types of spending associated with the loss of autonomy:

- the adaptation of the house, whose costs are ponctual and partially co-financed by the ANAH (National Agency for the adaptation of the house)
- personal and social services, whose costs are increasing with the degree of dependency, or housing in nursing homes.

The ANAH finances 70% of the adaptation costs in housing, until 8,000 € for owners with less revenues than a specific amount (for example, 21,022 € of fiscal revenue in Ile-de-France and 16,795 € in other regional areas for a single person).

The financing system of LTC (personal and social services or housing in nursing homes), is complex. The Social Health Insurance system, *Sécurité sociale*, represents more than 60% of the total spending, through te funding of a public institution created in 2004, *Caisse Nationale de Solidarité pour l'Autonomie* (CNSA).

In addition to this, LTC spending comes from three type of sources :

- public spending, with fiscal benefits and an individual allowance, *Allocation Personalisée à l'Auronomie* (APA), financed by local authorities, *Conseils généraux*, and the CNSA. The amount of the APA for one people is depending on needs and means (using an increasing deductible).
- private insurance
- households and their families (out of pocket)

The individual allowance (APA) is paid by local authorities, with a co-payment by the CNSA, to 1.1 millions of older dependent people at the end of 2008 (see table below). The growth of the number of older people receiving APA is important. Since its creation in 2002, the total cost of APA more than doubled, from 1.85 billion euros in 2002 to 4.9 billion euros. The amount an individual receive depends on needs and means of the beneficiary. In June 2009, it represents in average 500 euros for older people living at home, and 350 for those living in a nursing home.

Table 1. Evolution of APA spending

in million euros

	2002	2003	2004	2005	2006	2007	2008
Nbr of beneficiaries of the APA at the 31st December	605,000	792,000	865,000	938,000	1,008,000	1,070,000	1,100,000
Total cost of APA	1,855	3,205	3,632	3,900	4,243	4,600	4,900
Residual cost of the previous personal allowance	346	120	0	0	0	0	0
Copayment by FFAPA*/CNSA	798	1,323	1,339	1,341	1,411	1,451	1,554
Net charge for local authorities (Conseils généraux)	1,405	2,002	2,292	2,559	2,832	3,149	3,346
Part of local authorities in the total APA spending	57%	58.7%	63.1%	65.88%	66.75%	68.46%	68.29%

* : Fonds de financement de l'APA. This financial fund was substituted in 2004 by the CNSA

Source: Direction Générale de la Cohésion Sociale

The APA is a means and needs-testing allowance, which does not cover all costs involved by a loss of autonomy.

The fiscal benefits system is characterized by a low redistributive aspect. Hiring a domiciliary care professionnal give the right for the individual to reduce his income tax of 50% of the paid amount. The high-income households, who are used to hire domiciliary care professionals, can obtain important fiscal benefits, superior to the APA, while middle-income are penalized by the increase of deductible and do not use domiciliary care as much as high-income households.

b. The private insurance market

The LTC insurance market is the largest in the world, with the american one. However, it still has a small size, due to the very low demand for LTC insurance. The US has 6 millions insurees and an experience of 25 years, while France has 3 millions insuree. Examining the factors explaining why so few people purchase lifetime annuities for their retirement portfolios is not the subject of this paper. Nonetheless, Cremer and al. [2009] discuss a number of such factors, empirical as well as theoretical:

- **Underestimation of dependence risk.** Most people would underestimate the private cost of dependency and overestimate the amount of benefits.
- **Crowding out by social assistance.** There is a widespread argument according to which social assistance would crowd out private insurance.
- **Adverse selection.** This is a classic health insurance adverse selection problem. Elderly people who buy LTC insurance contracts would have better information than the insurance provider as to the occurence od dependency. But the correlation between the subjective probability of entering a nursing home and the probability of purchasing LTC insurance is still not proven in the french case.
- **Moral hazard.** The assessment of needs and not the determination of the severity of dependence is open to controversy. Kessler (2009) argues that while it is easy to estimate the severity of dependence, it is difficult to determine the level of assistance needed in relation to a certain los of autonomy. That is why french insurers prefer to offer a lump-sum reimbursement, while Americans reimburse uncontrolled real expenses.
- **Altruism.** Elderly people generally don't want to be financially aided by their children, so they tend to avoid, when possible, burdening their children by buying LTC insurance. Cremen cites Courbage and Roudaut (2008) who, using the french

SHARE data, show that being married and having children make it likelier to purchase private LTC insurance.

- **Cost of LTC insurance.** Total costs for severe loss of autonomy in France are estimated around 35.000 euros per year per people [De Castries, 2009] and can even be significantly higher in the case of Alzheimer's disease. But msot people think LTC insurance are too costly. One factor contributiong to making the insurance expensive is that elderly people tend to postpone as late as possible their purchase, so as to get better information on the approriate policy and on its cost. They also have other priorities (education, housing reimbursement...).

c. The need of extra sources of funding

The LTC financing system is not today satisfactory and leave an important burden, however difficult to measure, to the individuals and their families. A strong debate is taking place in France on how to maintain sustainability of the system, while decreasing the burden for the families. The idea is to create a "fifth pillar", to cover the risk of dependency, based on the model of the Social Insurance system who covers Four primary risks : disease, work accident, retirement and families.

Opinions are divided between those in favor of a tax increase (from retired ou active people, or both) and those who promote individual responsability, via private insurance development (at individual or collective scale). As it is not the subject of this paper, the reader could, for example, see for Gisserot (2007), for a presentation of the different scenarios.

The issue of "old people's money" refers both to the money they need and the money chich is available to them. The question of older people financing their own future dependency has recently risen. In this context, it is worth studying if equity release could potentially be a useful extra source of funding long-term care.

III. TE EXISTING SOLUTIONS AND POTENTIAL OF EQUITY RELEASE

About three-quarters of retired households in France now own their home. But a significant number of these older people have little income, even though they may live in a valuable property.

Older people wish to be supported to stay at home, but are often unable to have access to the type of help they want, especially when they need long term care. which can make such a difference to the quality of their lives.

If these older home-owners could draw on some of the equity in their homes, they could afford the extra cost of this additional help, and make it possible to live for longer in their own home.

a. Income of older people

Based on statistics from INSEE (the national statistic agency), the risk of poverty for older people decrease regularly since 1970. In 2002, the rate of retired people living under the poverty was 4%, versus 6% for the general population, very lower than in 1970, when it was 22%, versus 12% for the general population. Poverty affects today in priority younger people, especially unemployed people under 60 years old.

The INSEE definition of available income of an household [COR, 2007] is the sum of the incomes from activity, assets, transferts from other ouseholds and social benefits, minus direct taxes.

In 2004, available income represented in average 23.008 euros for retired households, which is 30% below active households (32.812 euros in average).

But to this gap, which represents a different position in the life cycle, does not correspond a gap as much important in terms of standard of life, because retired households are, in average, smaller than active households.

Therefore, in 2004, the average standard of life was 17.434 euros for retired households and 19.315 euros for active households, which is a gap of -10%.

b. Home equity of older people

The 3 dimensions of home-ownership. A home is much more than a material good, due to the different functions it has for an individual, his/her partner and his/her children or the relatives, that make it a unique product.

For an individual, owning a home is generally an important factor of security. This dimension is primordial and very estimated in our modern society. It is also a way to stop spending money by renting an accomodation, and to start constituting a financial asset. For the partner, the home is a garantee that if the individual dies or does not have significative income anymore, the partner can continue to live there, without having to find a new accomodation. For the children or relatives. The home is often considered as the result of an hard-working life and very often represents the largest part of the inheritance.

In conclusion, owning a home is not only a personal achievment, but also a form of altruism. Based on the study Patrimoine, by INSEE, the average home equity, in 2004, was more important for retired households than for active households. The median value of the distribution for the retired households was 141.000 euros, higher than the one for active households, equal to 115.900 euros.

	Active households	**Retired households**
Equity amount (in euros)		
D1 (1st decile)	2.100	5.600
D5 (median)	115.900	141.000
D9 (9th decile)	485.500	573.500
Average	213.600	252.700
Dispersion indicators		
D9/D1	234.0	102.8
D9/D5	4.2	4.1
D5/D1	55.9	25.3

Source: INSEE, Patrimoine 2004

The asset inequality between retired and active households is also valid for those with the least equity amount. The 10% poorest retired households in terms of equity have more equity than the 10% poorest active households. Another aspect, the dispersion is twice more important among active than retired households. The authors of the study mentionned that the difference may be due to generational effects, but this could not be adjusted in their work.

Still based on the INSEE study, retired people are more frequently home-owners than active people: 65% versus only 53% owns their primary house.

Rate of people owning equity

In %	**Primary house**	**Secondary house**	**Investment house (for renting)**	**Total**
Active	52.9	6.2	7.2	56.5
Retired	65.3	14.8	7.7	69.4

Source: INSEE, Patrimoine 2004

For a deeper analyse of the equity of older people in France, see [Girardot-Buffard, 2007].

Long term care: the option of equity release

The President of the Republic recently announced that an important reform of the LTC financing system would take place in 2011. It may, or may not, affect the environment of equity release.

The equity release option, as a supplementary option to cover long-term care costs, is still today a controversial issue in France. This is due to the complex nature of the home-ownership.

In this study, we consider equity release as an independant choice from any mechanism of public solidarity. We therefore want to underline the fact that the equity release choice has no impact at all on the level of public coverage, and has to be considered in addition to the existing coverage.

c. Equity release: the existing solutions

Three-quarter of older people own their house, while their needs are increasing. Why not giving them the possibility to use the asset it represents to purchase services and improve the quality of their life ?

There are only two different ways to increase personal income using equity release: sale in life annuity (in french *vente en viager*) and the reverse mortgage, a new product on the market. A sale in life annuity is a sale (transfert of property), while reverse mortgage is a loan (no transfert of property). Both have also a positive impact on the economy, in injecting more liquidity that implies an increase of activity.

We briefly analyse the strenghs and weaknesses of these existing solutions.

1) <u>Sales in life annuity</u>

This solution exists since 1804 in the *Code civil*, the french legislation. Sale in life annuity allows the home-owner to sell his accomodation at a very low price (sometimes even for free) in exchange, until his death or his entrance in a nursing home, of a regular pension from the buyer. The contract defines if the seller keep usufruct the accomodation or not.

It represents an alternative to the classical sell, which has some advantages:

- the seller can continue to stay in the house
- the seller increase or maintain his standard of life by receiving monthly pension, in extra of his other incomes
- the seller often receive a lump-sum at the signature of the contract, which he can use immediatly to cover immediate expenses
- the seller is not the owner anymore, so he does not have to pay for important refreshment work (as a owner would do)
- the buyer pays a lower price than for a classical sale
- the buyer has potentially the opportunity to save money, if the seller dies prematurously.

The sale in life annuity seems particularly adaptated to cover longevity risk, by reducing uncertainty on future income. However, there are two major barriers in the development of this solutions to help cover long-term care costs.

Moral factor. First, the buyer not only has to estimate the value of the accomodation, but also the life expectancy of the seller, in order to determine how long he will have to pay the monthly pension. This estimation of life expectancy is an important issue and can be morally inacceptable for the potential seller, as well as for most of the potential buyers. The dialogue preceding the signature of the contract between the two individuals is definitely a major factor in lowering the development of this solution.

Risk factor. As the final price of the sale in life equity depends on the date of death of the seller, the financial opportunity to use this mechanisms is determined by this random date of death. On one hand, the buyer takes the risk to pay, at the end, a higher price that what he expected. Or even that he dies before the seller and never usufruct the accomodation. On the other hand, the seller, by using this solution, reduces the inheritance to the family while taking the risk not to receive the all value of it (if he dies permaturously). This high level of uncertainty is also a major factor in lowering the development of this solution.

However, these barriers do not seem definitive ones. Griffond (2008) recommanded in her study on sales in life annuity to change the french legislation to allow not-for-profit associations and local authorities to enter on this market. In example, if a local authority buy twenty houses using this mechanism, the uncomfortable dialogue between the buyer and the seller about his life expectancy would be replaced by calculations using average life expectancy and mortality tables.

Another option is to use the existing possibility of inserting, in the contract, a maximum period of time after which the buyer wouldn't have to pay monthly pensions anymore.

But selling a home in life equity means renoncing to leave it in inheritance, which can be unacceptable for a significant part of older people. That is the reason why new products ave been developped, the most popular one being the reverse mortgage.

2) <u>Reverse mortgage</u>

A reverse mortgage is a loan available to seniors and is used to release the home equity in the property as one lump sum or multiple payments. The homeowner's obligation to repay the loan is deferred until the owner dies, the home is sold, or the owner leaves (into ursing home)

Creighton and al. (2005) give a more detailed definition: reverse mortgages (RMs) allow retirees to borrow against the value of their existing owner-occupied homes. Yet, unlike an ordinary mortgage, neither interest nor principal has to be repaid until the house is sold or the borrower dies. The income can be a lump sum, a line-of-credit, or a regular annuity system. Further, RMs are typically non-recourse loans, meaning the lender cannot claim other assets if the home value is less than total borowings when the home is sold.

The various considerations which needs to be taken while pricing a product of this nature are :

- **Age of the borrower.** If it is a joint borrowing then the age of the younger borrower is considered.
- **Value of the property.** Then value of the property plays a major role in determining the price for an RM product

- **Expected Interest Rate.** As the product resembles the normal annuity product in some sense, the current and expected interest also plays a major role in pricing the product

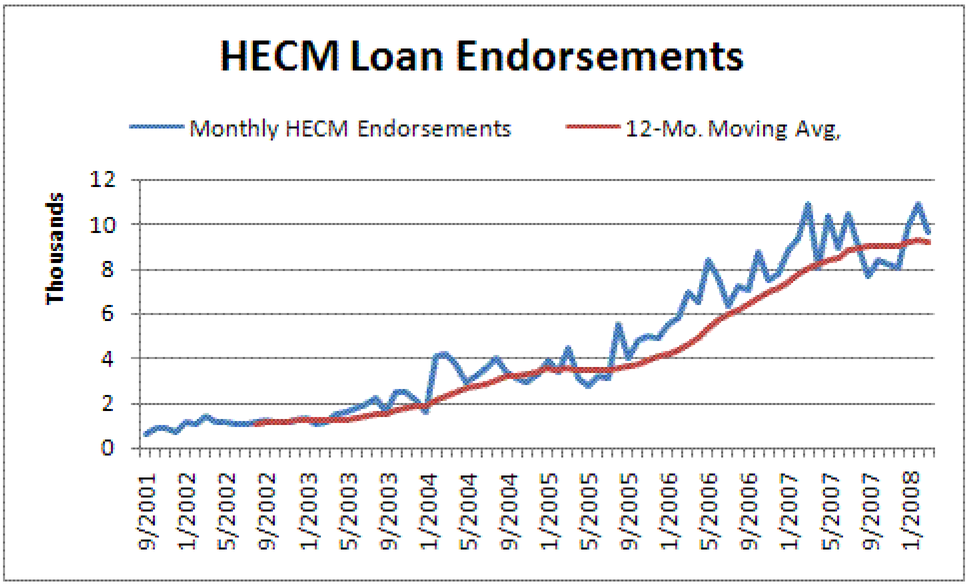
As any financial product, the Reverse Mortgage product involves some risks inherent , for the lender (the bank) as well as for theborrower (the elderly).

Singhal and al (2008) listed some of these risks for the lender:

- **Longevity Risk**. The lender has to provide the payment upfront either lump sum or multiple payments but gets his money back only when the borrowers dies or move into another residence. As the life expectancy of people is increasing, the risk of late recovery of loans is a big risk for the lenders. The longevity risk is higher for reverse mortgage where the payment is continued till the death of the borrower since not only the recovery gets delayed but also the lender has to make payments for a longer time.
- **Interest Rate Risk**. The payments to the borrower in case of a reverse mortgage is fixed, either for a term or lifetime but the cashflows for the lender may not be fixed and are dependant on the interest rate market. Thus the lender runs the risk that the interest rates in the market may move in the opposite direction of that the lender anticipated.
- **Market Risk (Property Value Risk).** The lender in a reverse mortgage can claim back his loan only from the property on which the loan has been granted. He does not have recourse to any other asset of the borrower. If the sales proceeds of the home are not sufficient, the lender cannot clam the balance from the heirs of the borrower. This gives rise to the risk of adverse movement in property market which affects the profitability of the product. Though this risk can be diversified with increasing the geographical reach of the operations of the lender but the risk still remains
- **Adverse selection and moral hazard risk.** As with insurance products, reverse mortgage products also have the scope of adverse selection i.e. only people with expected higher longevity may go for such products. Also as the borrower has really no incentive for keeping the house in proper condition as the risk is borne by the lender, it may lead to depreciation of value of the property.
- **Condemnation/ Sovereign takeover of the property by a government agency.** The asset available to the lender is the house and if there are changes like takeover of property by the government for development purposes etc, the lender is the looser

In the US, about 90% of reverse mortgages are government-backed loans (by the Federal Housing Administration), called Home Equity Conversion Mortgage (HECM). This mechanism is used to share risks between the lending bank and the public institution, in order to offer a lower rate to the customer (and so a lower price of the reverse mortgage). The lending bank just have to keep responsability for the longevity risk and interest risks, but the market risk is transferred to the public institution. It certainly is a reason of its development these last years.

Number of new reverse mortgage in the US (in thousands loans per month)



Source: Taffin Claude et Vorms Bernard, La mobilisation de l'actif résidentiel des personnes âgées pour participer au financement des dépenses dues au grand âge (2008)

In France, despite recent introduction in 2004, and the emergence of a first offer in 2007 by *Crédit Foncier de France*, the *prêt viager hypothécaire* (PVH), the french name of the reverse mortgage, remains a smaller market than might be expected given the large number of cash-poor, house-rich older people.

Many reasons explain this small development. First, the PVH is still on an experimental phase; because of this, fee are quite high. The product is also not flexible, with only the choice of borrowing a moderate lump-sum of the home value (34% at 75 years old). Moreover, the adverstising of the product is forbidden to protect consumers against abuses.

Taffin and Vorms (2008) suggest to import the american model of an institution similar to the Federal Housing Administration which could garantee the market risk. They conclude in their study that it would allow banck to offer to the customers an extra 20% of the home value (wich means 55% at 75 years old).

They also identified the Fond de garantie d'accession sociale (FGAS) as the preferred institution due to its experience in the loans for young people.

Since the publication of their first report, this idea has been promoted by other authors, as Boulmier (2009) or Franco (2010). Their papers offer a more technical approach than this paper and represent a valuable complementary insight on long-term care and equity release.

IV. EQUITY RELEASE AND LONG-TERM CARE – RECOMMENDATIONS FOR ACTION

We saw earlier that older people with a loss of autonomy often face out of pocket payments higher than their retirement pensions. The individual allowance (APA) is not suffiscient to cover all costs involved by the need for assistance, and families have to spend a lot of money to allow their parent to access care and services he needs. Therefore, extra financial ressources are necessary to continue to live at home.

Besides private insurance plans, home equity of older people represent a potential source of funding. But equity release solutions, which cover the longevity risk, are today facing major barriers for development.

Unfortunately, the timing and the scale of the study does not allow us to conclude on the real potential of equity release solutions. Further research are needed with qualitative and quantitative elements, espacially with the important reform of the LTC financing reform.

However, we would like to conclude by providing some recommendations for policy-makers in case they would like to make equity release options more acceptable for older people and more affordable.

MOVING FORWARD IN EQUITY RELEASE: 5 KEY POINTS

1. Keep considering equity release as an option: not more, not less

Like other risks (diseases, retirement...), loss of autonomy have to involve national and/or local solidarity. The soon-to-be reform of the “5th pillar” must be an opportunity to improve the quality of personal and assistance care. Home equity in this study has ben analysed independently of the coming reform and the authors believe equity release could be an extra option for individuals, as long as it does not have any impact on the amount of the personal allowance he receives.

2. Consider intergenerational and intrafamily consequences

The question of older people financing their own future dependence, based on the traditional principle of the free disposal of heritage, raise questions about intergenerational and intrafamily considerations. Further research is necessary to measure the economical and social impact of the development of equity release solutions to finance long-term care.

3. Make reverse mortgage more affordable

Following US example, a way to decrease the interest rate of reverse mortgage could be to garantee them by an institution. The risks would be shared between the bank and this institution.

4. Bring in new actors (non for profit associations, local authorities)

Sales in life equity are not popular, due to the estimation of life expectancy that an individual as to do about another one. A way to put down this barrier could be to allow not-for-profit associations and local authorities to jump into the market in order to avoid individual estimations and take decisions based on higher number of people (using only mortality tables for example). It would also make the market wider and have an impact on the costs.

5. Think beyond long-term care policy

It is important to think out of the box, and try to identify other societal aspects than long-term care that can be positively impacted by equity release. Further research is necessary to identify potential support for equity release in social housing policy, for example. This research should be done in collaboration with local authorites and economic actors, including not-for-profit association, to broader the social innovation process.

LIST OF ACRONYMS USED

ANAH:	Agence nationale pour l'adaptation du logement (national agency for the adaptation of the house)
APA:	Allocation Personalisée à l'Autonomie (individual allowance for loss of autonomy)
CNSA:	Caisse nationale desolidarité pour l'autonomie
EU:	European Union
HECM:	Home equity conversion loan
INSEE:	Institut national de la statistique et des études économiques (national institute of statistics)
LTC:	Long-term care
PVH:	Prêt viager hypothécaire (french name of reverse mortgage)
RVS :	Reverse Mortgages
US:	United states of America

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