

The Future of Old-Age Provision – Demographic Change, Financial Services and Residential Property. International Expert Meeting Summary*

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On 23 June, 2017 an international expert meeting entitled “The future of old age provision – demographic change, financial services and residential property” was held at the Andrassy University Budapest. The aim of this stakeholder meeting was to discuss Equity Release Schemes (ERS) and their future possibilities, with a special focus on Hungary.

At the meeting, the perspectives of providers, customers, regulatory and supervisory bodies and the academic sector were presented, and thus the topic was discussed from the point of view of nearly all stakeholders involved. Despite the efforts of the organizers, representatives of the life insurance sector, which – according to the current Hungarian legislation – may be the future potential providers of ERS products in the Hungarian market, were absent.

The meeting started with the opening address of *Martina Eckardt* from the Andrassy University Budapest (AUB), who welcomed the guests and stressed that the pension system in Europe is an important challenge which must be solved. The same point was emphasised by *Dietmar Meyer*, Rector of the AUB, who in his welcome address underlined that new approaches and new solutions are essential for Europe to be able to support the elderly.

The next presenter, *Jörg Dötsch* from the AUB, provided a short overview of the project “Integrating Residential Property with Private Pensions in the EU”¹ and presented its partnership, research objectives, initial outcomes and some findings on the Hungarian market. Following this, *John Maher* from the Waterford Institute of Technology, Ireland focused in his presentation on the retirement income pillars, the potential capital and income generation/ release from residential property and different proposals that have been examined in the project (e.g. unitised, leveraged, collective acquisition of residence rights with encashment of those

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rights post retirement, or, mortgage acquisition of residence with pension released from house, post retirement). Moreover, he outlined some overall parameters and proposals to be discussed, such as desirability and feasibility, obstacles and enablers, beneficiaries/ population cohorts, prerequisites for viability of the proposed solutions, scale of intervention and the relative priority of interventions. He also emphasised that if we want a good model, the scale is very important.

The next speaker, *József Hegedűs*, CEO of the Metropolitan Research Institute, Budapest, gave an overview of the topic from the point of view of a sociologist. He referred to the integrating mechanism concept as articulated by Karl Polanyi (Polanyi's work suggests that the market cannot be sustained without state regulation and a particular type of developed, ingrained social culture). Hegedűs also noted the impact that Airbnb is having on the rental market in Hungary (shifting supply from conventional residential renting to short-term tourism-type renting). Hegedűs envisaged choices regarding three sources of solutions to housing and income/ living standards in retirement: state, market, family. Family solutions include a life support contract in exchange for tenancy or occupancy rights. Hegedűs characterised housing as a special commodity, which thus merits particular consideration and treatment in a societal context. He also stated that privatising housing had the propensity for reinforcing or accelerating social inequality – look east for example to Russia. Moreover, he contrasted active earners (asset poor & cash rich) with retirees (asset rich & cash poor). Hegedűs gave some insights on a 1998 study performed in Hungary with respect to housing equity, which found that a housing equity release product was not feasible. He also referred to a DEMHOW study,² which concluded that releasing housing equity was competing with family care solutions. Lastly, he mentioned a deepening gap between social classes emerging in Hungarian society and highlighted the distribution of income, housing wealth and arrears over different quintiles.

Following this, *Imre Hild*, co-founder of Hild Life Annuity and founder and managing CEO of OTP Life Annuity presented the experiences of equity release programmes in Hungary from the providers' perspective. In his presentation, *The Story of the Life Annuity for Real Estate Model 2004–2009 in Hungary*, he gave an overview of the main features of life annuity for real estate programmes in Hungary and highlighted why such programmes could be viable and attractive in the country. He categorised the reasons into three main groups: structural reasons (e.g. in 2004 there were 170,000 pensioners without children and 40–50 per cent of pensions was spent on maintenance and upkeep), financial reasons (e.g. for most of the target market the apartment was acquired at EUR 1,000 and the average pension was EUR 300 in 2004) and social reasons (e.g. Life Annuity for Real Estate has been known as a

² For more information on the results of the DEMHOW project, see http://cordis.europa.eu/project/rcn/88908_en.html.

private contract since 1950s and it could change the lifestyle of the elderly without admitting hardship to neighbours). Summarising the experiences of the 2.5–3 years of operation, he explained that the average age of the contracting parties had been 71 years old; the average real estate value had been HUF 12.4 million; among the contracted properties 60 per cent had been apartments, 30 per cent had been houses and 10 per cent had been weekend houses; the upfront payment had been 25 per cent of the value of the property at the beginning, which had risen to 40 per cent due to increasing competition between different providers; and the average monthly annuity indexed by inflation had been HUF 30,000. As for the overall results of the 2.5–3 years of operation, Hild indicated that approximately 5,000 clients / 4,000 properties had been involved, HUF 13–14 billion in upfront payment had been made and HUF 50 billion in real estate value had been involved (this latest was a total by all three providers that were present in the Hungarian market from 2004 until 2008, when the ERS programmes came to a halt in Hungary due to a real estate crisis triggered by the global financial crisis). Lastly, among the lessons learnt, Hild mentioned that the key had been to speak with the customer voice; the contract had had to be a simple, no catch contract; security meant more than cash and that life annuity programmes had saved lives and overall, it had proved to be more than a simple financial programme, since it had turned into a social programme at least from the customers' point of view. However, only part of the social problems raised by their clients could be fixed by a financial product like ERS, Hild stated.

The last presenter, *László Kalmár*, CEO of Europ Assistance Hungary (a company active in the field of providing care and insurance services for life annuity programme participants), presented the topic from the customers' perspective. Apart from the presentation of his company's activities, he gave an overview of the number of open cases since January 2014 and he also emphasised the importance of being able to speak with a customer voice and also taking care of some needs of the customers which were not covered by the contract.

Finally, the stakeholder event was concluded with an open discussion, where participants also considered the future of ERS programmes in Hungary. It was mentioned that since 2015 only insurance companies were allowed to offer ERS products in the country, due to a change in the statutory requirements for operating such a business. However, there has not been much interest from the insurance companies so far, according to *Ferenc Szebelédi*, head of the Insurance Supervision Department at the Magyar Nemzeti Bank, representing the point of view of the regulatory and supervisory authorities. All in all, participating stakeholders agreed that despite the present situation, the ERS market could evolve over time.

