Use of Property during Retirement

Supplementary Paper Number 04

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Executive Summary

This Paper is an update of the paper titled: "*Use of Property for Retirement*" that was issued as a supplement to the Final Report of the Pensions Working Group on 30th June, 2005 ("2005 Property Paper"). It aims to: [i] take into account any changes in the social, economic and demographic scenarios since the publication of the 2005 Property Paper, and [ii] to reassess the validity of the recommendations of the 2005 Property Paper in terms of the current scenario. Moreover, the paper tries to determine whether: [i] property savings is a viable alternative source of retirement income; and [ii] property can be used to fund retirement income.

The Paper looks briefly at savings of residents in Malta. However an analysis of the savings patterns is limited due to lack of certain data. Accordingly although statistics indicate an increase in savings (e.g. in bank deposits and in financial instruments listed on the Malta Stock Exchange) by residents in Malta over the years, this cannot be taken to necessarily mean a general increase in the average savings household ratio.

The Paper also analyses briefly statistics regarding household debts (which is another form of savings) and property prices and ownership. Findings indicate that total resident lending for home purchases and the number of owned dwellings have been on the increase over the years. Moreover, when compared with other European Union countries, Malta ranks among the top countries with a high percentage of owner occupied property. Statistics seem to indicate that an element of savings have been targeted towards housing. In addition, while no data is available as to what percentage of household assets are in housing assets, it is likely that housing assets may represent a high percentage of household wealth given the trend of rising property prices in Malta over the recent years.

However, most housing wealth is different from other forms of wealth or savings. When compared with other forms of savings, property is indivisible and cannot be sold in separate units and the price of property appears to be established in an informal manner as there is no well established and regulated trading market for property. The impact of use of property for retirement income is uncertain and would be unevenly distributed:

- There are various reasons while people may not want to release equity locked in their property.
- Even if equity in property is released, it will not there is no guarantee that such income will be channelled to finance retirement income.
- In addition, the spread of wealth including housing wealth is likely to be uneven and unequal.
- Variation in house values and holdings of dwelling types among income earners leads to wide variations in the amount of property equity that can be released by different categories of people.
- Moreover, equity in property has a fluctuating value like other investments despite the general idea that property prices do not go down in Malta.

It is thus considered that savings in property and housing assets should not be considered as a substitute to other supplementary forms of or Second and Third Pillar pension provisions, but rather as assets that individuals can use to supplement their private pension savings should they so wish.

Financial products such as equity release products enable a home owner to draw down some of the equity held in property without the need to move out of the property. There are two main forms of equity release products namely, Home Reversion Schemes and Lifetime Mortgages. Research showed that equity release products are available in a number of countries worldwide. Moreover, three European Union Member States have a well developed equity release market and a limited form of such products are available in another nine Member States. The most developed equity release market is the United Kingdom where this has been present for over thirty years. The Paper provides an overview of the equity release market in this country, together with a synopsis of the regulatory framework for lifetime mortgages and home reversion plans applicable for products marketed in this country.

In so far as the local market is concerned, according to a Perceptions Survey carried out in 2005, although saving in housing appears to be increasing, only few people at the time appeared to plan or saw their property as a potential source of retirement income. However, the increase in: [i] the average age of the Maltese population due to an increase in the older age groups, and [ii] the number of single person households, may lead to the development of the equity release market in Malta. Equity Release Plans may prove attractive in due course, to certain segments of the population in Malta which are on the increase and to whom these plans are ordinarily attractive outside of Malta, such as single persons, childless couples and elderly people living independently rather than with their family. These demographic changes in households and the population, coupled with a high home-ownership percentage, and possibly a culture change towards property, may lead to the emergence of equity release markets in due course.

Recommendations:

i. Property should not be seen as a substitute source of retirement income to Second and Third Pillar pensions – but rather as a complement thereto;

ii. A detailed study should be carried out in due course to assess the potential for the development of an Equity Release market in Malta. In this regard,

   a. further research on the savings pattern of the Maltese population should be carried out with the aim of: [i] identifying Malta's savings ratio; [ii] the portion of an individual's wealth which is invested in property; and [iii] determining any existing arrangements which contain elements of equity release schemes;

   b. an assessment on the take up of such products by the Maltese population should be carried out. This assessment could *inter alia* analyse: [i] the impact of the Maltese traits and perceptions on giving up their property for future income; [ii] the cost of an awareness and educative campaign aimed at introducing such products in Malta; and [iii] the negative impact of adverse fluctuations in property prices which could have on consumers of such products. Moreover, the impact assessment should also incorporate any trends in the rental market, which might be brought about by the rent reform;

iii. The taxation and inheritance aspects would also need to be looked into.

iv. If demand for Equity Release products results, it is recommended that further research is carried out regarding the need or otherwise of a regulatory regime for such plans. The introduction of legislation in this area should be accompanied by a cost benefit analysis especially if research shows that there will be a limited market in such products.

v. A supporting educational campaign should accompany at any time any availability of these types of products.

01. Introduction

01.1 Purpose

This Paper is an update of the paper titled: "*Use of Property for Retirement*" ("*the 2005 Property Paper*") that was issued as a supplement to the Final Report of the Pensions Working Group on 30th June, 2005 ("*the 2005 Final Report*").

01.2 Background

Recommendation 44 in the 2005 Final Report advocated that "*the financial services market should offer regulated Property Pension Funds as a Third Pillar Product*". This recommendation was made following consideration of:

a. the feedback received during the consultation process on a White Paper that was issued in November 2004. Section 3.6.3 from the 2005 Final Report is attached as Appendix I to this Paper.

b. the findings of the 2005 Property Paper. The Executive Summary of this Paper is attached as Appendix II to this Paper.

01.3 Aims of the Paper

This Paper aims to:

a. take into account any changes in the Maltese social, economic and demographic scenarios since the publication of the 2005 Property Paper, and

b. to reassess the validity of the recommendations of the 2005 Property Paper in terms of the current local scenario.

The paper is aimed at determining whether: [i] property savings is a viable alternative source of retirement income; and [ii] property can be used to fund retirement income.

This Paper is not linked to the rent reform which area falls outside the scope of this Paper.

01.4 Structure of the Paper

The Paper is structured as follows:

- Chapter 02 considers: [i] the savings patterns of Maltese households; [ii] total resident household debt in Malta; and [iii] Malta's property prices and home ownership trends.

- Chapter 03 discusses the different ways of how property can be used to supplement retirement income;

- Chapter 04 looks at the equity release market and its regulation in the United Kingdom;

- Chapter 05 looks at the possibility of introducing equity release products in Malta; and

- Chapter 06 concludes with recommendations and way forward.

02. Savings and Property in Malta

02.1 Introduction

This section of the Paper attempts to analyse the savings patterns (including in the property sector) by Maltese residents. The first part provides an indication of the per capita deposits of the Maltese resident population with local credit institutions and also takes a look at the investments held by individuals in financial instruments listed on the Malta Stock Exchange and gross premiums written by individuals in the life insurance sector. This is followed by a look at the total resident household debt (which is another form of savings) in Malta together with an analysis of Malta's property prices and home ownership patterns. This chapter concludes whether housing wealth in Malta could be a potential source of retirement income.

02.2 Deposits

The personal sector wealth held in resident deposits with all local credit institutions as at 30th September, 2008 stood at EUR 6.6783 billion. As can be seen in Table 01, statistics show that total deposits by households and non-profit institutions resident in Malta has registered an increase in all years since 1985, with the exception of 1986. Per capita deposits registered a double digit increase between the years 1988 – 1997, and during 2007.

Table 01: Deposits of households and non-profit institutions resident in Malta with all local credit institutions

Year	Total Deposits by households and non-profit institutions EUR 000s	Total Population	Per capita deposits	%age change over previous year
1985	845,171.21	340,907	2.48	
1986	837,663.64	343,514	2.44	-1.64%
1987	924,477.06	345,636	2.67	9.69%
1988	1,054,949.92	349,014	3.02	13.01%
1989	1,218,718.84	352,430	3.46	14.40%
1990	1,419,808.99	355,910	3.99	15.36%
1991	1,588,236.66	359,543	4.42	10.73%
1992	1,786,049.38	362,977	4.92	11.39%
1993	2,044,894.01	366,431	5.58	13.41%
1994	2,398,430.00	369,451	6.49	16.33%
1995	2,726,857.68	371,173	7.35	13.17%
1996	3,079,808.99	373,958	8.24	12.10%
1997	3,414,887.03	376,513	9.07	10.13%
1998	3,762,068.48	378,518	9.94	9.58%
1999	3,970,810.62	380,201	10.44	5.08%
2000	4,162,068.48	382,525	10.88	4.18%
2001	4,555,828.09	385,077	11.83	8.74%
2002	4,941,921.73	386,938	12.77	7.95%
2003[1]	5,078,826.00	388,867	13.06	2.26%

2004	5,199,700.00	390,669	13.31	1.91%
2005	5,361,300.00	392,560	13.66	2.61%
2006	5,687,300.00	393,933	14.44	5.71%
2007	6,541,800.00	394,830	16.57	14.76%
2008	6,678,300.00*	396,710**	16.83	1.60%

Source: National Statistics Office / Central Bank of Malta

[1] Since October 2003, the compilation of deposits has been harmonised with internationally agreed statistical concepts. This sector, from 2003, comprises individuals and non-profit institutions.
[2]Total deposits for 2008 related to figures as at 30th September, 2008
[3]Total population for 2008 was not available. An estimate for 2008 has been calculated by taking a simple average of the percentage increase in population over the previous ten years.

02.3 Other Forms of Savings

02.3.1 Investments in Instruments listed on the Malta Stock Exchange

Table 02 shows the total investments in financial instruments listed on the Malta Stock Exchange ("*MSE*")[1] by residents of Malta and the number of Maltese resident individuals holding an account with the MSE per annum. The statistics show that the level of savings in investments on the MSE listed instruments has increased at a steady pace from 2001 to 2008. Furthermore, it appears that a sizeable amount of the Maltese population appears to have some form of investment on instruments listed on the MSE.

Table 02: Investments by residents of Malta on the MSE

Year	Type of Financial Instrument					Number of Resident Individuals
	Malta Government Bonds	Bonds	Equities	Treasury Bills	Total	
	EUR	*EUR*	*EUR*	*EUR*	*EUR*	
2004	314,256,900	137,616,700	98,543,109	-	550,416,709	166,183
2005	337,339,900	121,927,200	113,737,857	-	573,004,957	163,784
2006	322,208,900	135,336,600	185,284,466	-	642,829,966	162,001
2007	325,279,100	184,193,200	204,671,284	8,347,000	722,490,584	171,194
2008	788,621,655	348,800,501	250,910,346	56,442,000	1,444,774,502	179,702

Source: Malta Stock Exchange

02.3.2 Other forms of Savings

Further to the above, to also note that there could be other alternative forms of financial savings such as shareholders' funds in locally based collective investment schemes and other entities not listed on the Malta Stock Exchangeinsurance products as well as savings in and/or with foreign based entities. First hand comparative statistics over a period of time with respect to these forms of savings were not readily available (although one notes that total gross premiums written from all classes of long term business, excluding group life policies, for 2007 amounted to EUR 225,207m).

[1] The MSE is the only regulated market on the Maltese Islands for dealing in financial products, including: equities and bonds issued by the government and the private sector and treasury bills issued by the government of Malta.

So although the above statistics seem to indicate that savings have increased steadily by residents in Malta over the past years, no meaningful analysis can be carried out. In this regard it is important to note that no data is available on how the above savings (deposits or investments in MSE listed instruments) are spread among individuals and whether these are representative of the population or of which sectors of the population.

In addition, the value of investments / savings in MSE listed instruments can go up or down depending on the performance of the underlying market.

Another limitation is the lack of readily available data regarding Consumer's Expenditure or Disposable Income patterns. In this regard, it should be noted that Table 02 in the 2005 Property Report indicated a decreasing trend in the savings ratio from 1985 to 2002. At the time, this decrease in savings ratio indicated *prima facie* that people were saving less in relation to consumption and disposable income, especially since inflation rate was on the increase. Moreover, statistics then showed an increase in household debt (servicing of which carries a cost which impinges on disposable income), with a lower growth in 2004 in disposable income coupled with a slowdown in private consumption. Unfortunately similar data for recent years is not available.

Therefore, although statistics tend of show increasing levels of savings, this cannot be taken to necessarily mean that on average households are saving more over the years.

02.4 Household Debt and Property Ownership

Table 03 below shows an increasing trend in the total amount of house loans (which can be considered as another form of savings) over the years 1985 to 2008, albeit at a decreasing rate from 2005 to 2008, with a marked slowdown in 2008 reaching 7.52%.

Table 03: House Loans to resident householders with all credit institutions

Year	Total Resident Lending for House Purchases	% age change over previous year
	EUR 000s	
1985	87,798.74	
1986	97,943.16	11.55%
1987	108,287.91	10.56%
1988	126,606.10	16.92%
1989	150,104.82	18.56%
1990	180,125.79	20.00%
1991	196,662.01	9.18%
1992	219,629.63	11.68%
1993	230,340.09	4.88%
1994	279,597.02	21.38%
1995	308,779.41	10.44%
1996	352,122.06	14.04%
1997	404,588.87	14.90%
1998	454,353.60	12.30%

1999	521,986.96	14.89%
2000	600,845.56	15.11%
2001	714,470.07	18.91%
2002	855,168.88	19.69%
2003	1,030,153.74	20.46%
2004	1,255,700.00	21.89%
2005	1,521,400.00	21.16%
2006	1,769,900.00	16.33%
2007	2,014,900.00	13.84%
2008*	2,166,500.00	7.52%

Source: National Statistics Office / Central Bank of Malta (* Figures available as at 30th September, 2008)

Lending for house purchases remains one of the primary purposes of bank borrowing by residents according to the Annual Report of the Central Bank of Malta for 2008 (despite having slowed down during the twelve months to December 2008).

One may argue that this can be further substantiated by the number of owned dwellings. The Census of the Population and Housing undertaken in 2005, showed that 75.2% of occupied dwellings were owned, an increase of 28.76% from the number of owner occupied dwellings in 1995. Table 04 illustrates the distribution of occupied dwellings by tenancy which shows a marked preference for home ownership (approx. 70%) against renting of dwellings (approx. 20%). Furthermore, this table shows that owning a property may not always be a choice due to the current problems associated with the rental market

Table 04: Occupied dwellings by tenancy

Tenancy	1995		2005	
	Number	%	Number	%
Owned Freehold	81,242	68.00	76,689	55.10
Owned with ground rent			27,922	20.10
Rented Unfurnished	30,824	25.80	24,383	17.50
Rented Furnished	2,957	2.50	4,377	3.10
Held by emphyteusis	-	-	2,112	1.50
Used free-of-charge	4,407	3.70	3,695	2.70
Non-respondent	49	0.00	-	-
	119,479	100	**139,178**	100

Source: Census of Population and Housing 2005 - Volume 2 – Dwellings

When comparing with other EU member states, Malta tends to rank with the countries which have high percentages of owner occupied property. Table 05, which has been reproduced from a report titled: "*Housing statistics in the European Union*" compiled by the National Board of Housing, Building and Planning, Sweden and the Ministry for Regional Development of the Czech Republic contains the distribution of occupied dwelling stock by tenure across EU member states.

Table 05: Occupied dwellings by tenancy in the EU

3.5 Occupied dwelling stock by tenure (%), *1980–2003*

	1980				1990				1995				2000				2003			
	R	OO	CO	O	R	OO	CO	O	R	OO	CO	O	R	OO	CO	O	R	OO	CO	O
Austria[1]	43	52	na	5	41	55	na	4	42	54	na	4	na	na	na	na	39	58	na	3
Belgium[1]	38[2]	59[2]	na	3[2]	33[2]	67[2]	na	0[2]	na	na	na	na	32	68	na	0	31[2]	68[2]	na	2[2]
Cyprus[6]	16[2]	61[2]	na	23[2]	13[2]	64[2]	na	23[2]	na	na	na	na	14[2]	68[2]	na	18[2]	na	na	na	na
Czech Republic[7]	40	40	13	7	40	38	19	3	na	na	na	na	29	47	17	7	na	na	na	na
Denmark	43	55	1	1	40	54	5	1	40	52	6	2	39	52	7	2	40	53	7	0
Estonia	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Finland	30	63	0	7	25	72	0	3	30	67	0	3	32	64	0	4	34	63	0	3
France[4]	41[2]	47[2]	na	12[2]	39	54	na	7	40[2]	54[2]	na	7[2]	39[2]	55[2]	na	7[2]	38[2]	56[2]	na	6[2]
Germany[3]	61	39	na	0	58[2]	42[2]	na	0[2]	57[2]	43[2]	na	0[2]	na	na	na	na	55[2]	45[2]	na	0[2]
Ex-GDR	69[2]	31[2]	na	0[2]	74[2]	26[2]	na	0[2]	69[2]	31[2]	na	0[2]	na	na	na	na	66[2]	34[2]	na	0[2]
Greece	25[2]	75[2]	na	0[2]	24[2]	76[2]	na	0[2]	na	na	na	na	20[2]	74[2]	na	6[2]	20[2]	74[2]	na	6[2]
Hungary[8]	29	71	na	0	26	74	na	0	20	79	na	1	7	92	na	1	7	92	na	1
Ireland[1]	24	76	na	0	18[2]	79[2]	na	3[2]	na	na	na	na	na	na	na	na	18[2]	77[2]	na	5[2]
Italy	36	59	na	5	25[2]	68[2]	na	6[2]	na	na	na	na	na	na	na	na	na	na	na	na
Latvia	na	na	na	na	79	21	na	0	58	42	na	0	30	70	0	0	21	79	0	0
Lithuania[5]	na	na	na	na	na	na	na	na	na	na	na	na	7	91	na	na	na	na	na	na
Luxembourg	39[2]	60[2]	na	1[2]	30	64	na	6	26[2]	70[2]	na	4[2]	26[2]	70[2]	na	4[2]	26[2]	67[2]	na	7[2]
Malta	na	na	na	na	na	na	na	na	28	68	na	4	na	na	na	na	26[2]	70[2]	na	4[2]
Netherlands[4]	58	42	na	0	55	45	na	0	52	48	na	0	47	53	na	0	45	55	na	0
Poland[10,11,12]	na	na	na	na	na	na	na	na	na	na	na	na	26	55	19	0	24	58	18	0
Portugal	39[2]	52[2]	na	5[2]	28[2]	67[2]	na	5[2]	na	na	na	na	21[2]	75[2]	na	4[2]	na	na	na	na
Slovak Republic[9]	na	na	na	na	28	49	22	1	na	na	na	na	9	74	15	2	na	na	na	na
Slovenia	na	na	na	na	na	61	na	39	na	na	na	na	na	na	na	na	9	84	na	7
Spain	21[2]	73[2]	na	6[2]	15[2]	78[2]	na	7[2]	14	80	na	6	10	84	na	6	11	82	na	7
Sweden[1,13]	42	42	16	0	44	39	17	0	40	46	14	0	39	46	15	0	39[2]	46[2]	15[2]	0
United Kingdom	42[2]	58[2]	na	0	35	65	na	0	33	67	na	0	31	69	na	0	31[2]	69[2]	na	0[2]

R = Rent, OO = Owner-occupied, CO = Cooperative and O = Other

Other includes BE: (rent) free dwellings; ES: vacant or unknown dwellings; IT: free right of user; FR: tenancy of a furnished unit, sub tenancy and free housing; FI: empty dwellings.

1 BE, IE: occupied dwellings; AT: annual average; principal dwellings
2 BE: 1981, 1991, 2002; CY: 1982, 1992, 2001; DE: 1993, 1998, 2002; ES: 1981, 1991; Ex-GDR: 1981, 1993, 1998, 2002; GR: 1981, 1991, 1999, 2001; FR: 1978, 1996, 1999, 2002; IE: 1991, 2002; IT: 1991; LU: 1981, 1997, 2001, 2002; MT: 2002; PT: 1981, 1991, 2001; SE: 2001; UK: 1981, 2001
3 Excluding Ex-GDR
4 Refers to stock statistics given in Table 3.1
5 Population and Housing Census 2001. Data on occupied conventional dwellings. The tenure status of 2 % of the dwellings are not indicated
6 1982 and 1992: Households, 2001: Conventional dwellings
7 Population and Housing Census: 1.11.1980, 3.3.1991, 1.3.2001
8 1995=1996 Micro census, 2000=2001 Census, 2003: Housing Survey
9 Population and Housing Census: 3.3.1991, 26.5.2001
10 The rental category embraces housing stock of: municipalities, social housing associations, co-operatives (so-called rental title) and employers
11 Dwellings owned by natural persons. Data on the base of current reporting
12 Co-operative dwelling: The category embraces housing stock of co-operatives (ownership title only)
13 Co-oprative dwellings: Housing co-operatives based on tenant-owning. A small fraction (<1% of total dwelling stock) consists of co-operative rental dwellings

Source: National statistical institutes, Ireland: Department of the Environment, Heritage and Local Government

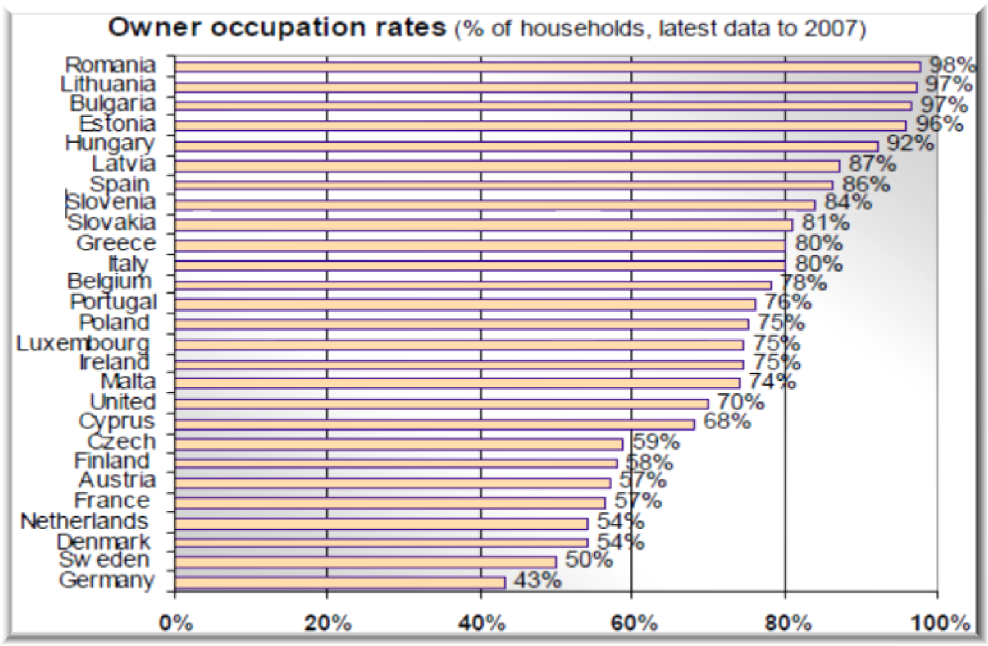
Source: National Board of Housing, Building and Planning, Sweden and the Ministry for Regional Development of the Czech Republic

Similarly Chart 1 which has been reproduced from a report titled: "*Study on Equity Release in the EU"* conducted by the European Commission provides an indication of the owner occupancy rates in the EU. The chart indicates that levels of homeownership vary considerably in the European Union, with countries of the southern and eastern Europe, which tend to be less industrialised have high homeownership rates, while the traditionally more industrialised member states have more significant tenant occupation.[2]

From the above, it appears safe to conclude that Malta's proportion of owner occupied property tends to be on the high side. These figures seem to suggest that rented property is not very popular in Malta. This notwithstanding, the impact of the rent reform should not be discounted as potentially it could bring about a shift from home ownership to rental of property over time. One would also need to look at demographic composition and changes in this regard.

[2] Study on Equity Release Schemes in the EU pg. 50.

Chart 01: Occupied dwellings by tenancy in the EU



Source: EMF/Hypostat 2007 A Review of Europe's Mortgage and Housing Markets, 11/2008, Statistical Tables

02.5 Property Prices

The 2005 Property Report noted that although a considerable percentage of the Maltese population's expenditure was being directed towards acquiring property both as a personal and long term asset, the increase in total resident lending for house purchases corresponded to a matching increase in property prices. Table 03 and Table 06 of this Report appear to reaffirm this observation.

Table 06 illustrates the changes in the property index for the years 2000 to 2008, with the year 2000 being the base year. This table shows an increase in property prices up to 2007, albeit with property prices increasing at a slower rate between 2005 and 2007, followed by a decrease of 2.68% in 2008 – which patterns appear to be reflected also in Table 03 with respect to total credit granted by credit institutions for house purchases.

Table 06: Property Price Index (Based on advertised prices)

Period	Index of house prices
2000	100.0
2001	105.1
2002	114.2
2003	129.3
2004	155.6
2005	170.9
2006	177.0
2007	178.9
2008	174.1

Source: Central Bank of Malta

This similarity in pattern between Table 03 and Table 06 indicates a possible correlation between the index of house prices and total resident lending for house purchases. [However it is worthwhile noting that Table 03 shows a fluctuating pattern in household lending for the period 1991 to 1998. However no property price data is available for that period other than Table 06 which shows a general increase in house prices. Therefore one cannot conclude – without full data – that the observation that increases in house mortgages corresponds to property prices as being conclusive].

This possible correlation between the amount of house loans and property prices could be interpreted to merely mean that the amount of house loans taken out reflects the property prices for that sector, where the acquisition of a property may not necessarily be an investment but is a necessity (especially given the problems associated with the local rental sector during the past years and the cultural preference for home ownership).

However this possible correlation between the amount of house loans and property prices could include a sector who is directing savings into property as a long term investment[3]. The reduction in house loans in comparison with a decreasing trend in property prices could also include a sector who was investing in property not out of necessity but as an alternative form of investment, and who is now channelling savings previously allocated to property into other forms of investment. In this regard, it may also be worthwhile to note that the savings trends in bank deposits and investments held by nominal individuals on the Malta Stock Exchange, according to Tables 01 and 02 increased substantially during 2004 – 2008, in comparison with the decrease in house loans and property prices over the same period.

Ideally the amount of house loans should be assessed in relation to the actual number of house loans and categories of house-buyers taking out the loans (e.g. first-time buyers vs. second time buyers) and the demography of the population.

Table 06 above, also appears to challenge the general notion that an investment in property in Malta is always appreciating and that property prices are always on the increase. In this regard, to note that the Annual Report of the Central Bank of Malta for 2008 indicates that the index of advertised residential property indicated an average decline of 2.7% in 2008[4]. The same report states that the decline was spread across the various property types. Chart 02 which reproduces Chart 3.6 of the same report shows the decline in residential property prices between 2005 and 2008.

Chart 02: Index of residential property prices in Malta

Further to the above, due to lack of availability of specific data, it is difficult to determine exactly how much is saved in property versus other alternative forms of investment. This notwithstanding, there

[3] Structure Plan for the Maltese Islands – a Housing Topic Paper dated February 2004, indicates that (page 58) "further loans are being issued for clients buying property as an investment rather than a home". Data in this Report shows that the number of vacant properties had increased up to 2004. In 1995 vacant property amounted to 23% of total. And between 1985 and 1995, there was an increase of 11,668 vacant units. The 1997 census indicated that 36% of these vacant properties are used as summer residencies while others are permanently vacant.
[4] Annual Report 2008 – Central Bank of Malta pg. 41.

still appears to be an element of savings being targeted towards housing and that property may be a major asset for certain households – as substantiated by the amount of house loans taken out and also by the high home ownership rate that exists in Malta.

02.6 Is Housing wealth a suitable source of retirement income?

Most housing wealth is different from other forms of wealth or savings. Unlike other forms of investment, property is indivisible and cannot be sold in separate units. Moreover, there is no well established and regulated trading market, which determines the market value of property on a frequent and regular basis – prices of property seem to be established in an informal manner.

Moreover, housing is one of the basic social needs and people may not necessarily own property for speculation or as an investment. Home ownership provides security to tenants and helps to reduce the costs of residency, rather than to provide a significant amount of income throughout retirement, unless the individual holds more than one property.

There is a cost with releasing residential property – as alternative accommodation would need to be found. Not all homeowners necessarily own more than one property. Moreover, property very often carries with it an emotional attachment and many people are reluctant to move house. Also, property is often seen as a family asset which should be preserved for their children or grandchildren. These factors may render the use of property for retirement as uncertain[5].

Moreover, even if equity in property is released, no definite rule exists that people will use it to finance retirement income rather than for other purchases or other needs such as health care. This means that not all housing wealth would actually be available to use or will be channelled to finance retirement[6], even if it may be large compared to financial wealth.

In addition, it is not documented how and where wealth is tied up – particularly how savings or house loans or dwelling types (which vary by price) are distributed among earnings categories. Variation in house values and holdings of dwelling types among income earners leads to wide variations in the amount of equity that can be released by different categories of people. It is likely that most people will have property and other forms of savings – but neither type of wealth is spread evenly among everyone. The majority of people would probably have low levels of savings and relatively small amounts of housing equity.

Only a proportion of the population will have: [i] sufficient housing equity to provide a reasonable amount of retirement income, together with other savings; and [ii] sufficient amounts invested in property to allow them to use investment income from property instead of private pension provision[7].

This section of the report attempted to give an indication of the savings patterns of the Maltese individuals. Indeed, the analysis is not comprehensive and it is not clear what are the savings patterns or what percentages of household assets are in housing assets and how these are held. In any case, even if housing assets feature as a large component of housing wealth, this percentage as well as the value of property held may fluctuate.

Further to the above, it is considered that savings in property and housing assets should not be considered as substitute retirement income to other supplementary forms of income or Second and Third Pillar pension provisions, but rather as assets that individuals can voluntarily use to supplement their private pensions should they so wish.

[5] Pensions Policy Institute (2004) Property or Pensions?
[6] Op cit Pensions Policy Institute (2004) Property or Pensions? Pg 6.
[7] Ibid pg 21.

03. How can Property supplement retirement income?

03.1 Introduction

One primary way property can be used to increase or fund income during retirement is through the sale of the house – the primary residence or a second property. However the equity received on the sale of the primary residence would be reduced by the purchase of another presumably smaller property, or by living costs of renting alternative accommodation or moving into a retirement home. In addition, this requires the homeowner to move out of the property.

Alternatively, there are a number of financial services products known as equity release mechanisms which are either mortgage or reversion based financial schemes, which enable a home owner to draw down some of the equity in the property.

Equity release products have become increasingly popular in a number of countries. Such products are available in countries within the European Union ("*EU*"), and other countries such as: Australia, Canada, France, New Zealand, South Africa, and the United States of America. A study on equity release schemes in the EU undertaken by the European Commission ("COM") shows that the equity release market is well developed in the: [i] United Kingdom; [ii] Spain; and [iii] Ireland. Another seven member states have equity release markets but which generally contain offers for lifetime mortgage loans these being: [i] Austria; [ii] Finland; [iii] France; [iv] Germany; [v] Hungary; [vi] Italy; and [vii] Sweden. Moreover, Bulgaria and Romania have a small scale market of the home reversion model plans. No equity release scheme market exists in the remaining member states. The COM's document is attached as Appendices III and IV to this paper.

The COM's study revealed that the United Kingdom has the highest number of equity release contracts in issue. It also indicated that the market of the lifetime mortgage loans represents approximately 0.1% of the ordinary mortgage market. Moreover the EU outstanding lifetime mortgage market as at 2007 was around EUR 3.31 billion with an estimated 45,328 contracts. It also indicated that equity release products are primarily issued by: [i] credit institutions (40%); [ii] real estate investors (19%); [iii] specialist lenders (12%); [iv] insurance companies (12%); and [v] the remaining 15% being markets by intermediaries operating on behalf of product providers.

This section of the report outlines the various equity release plans available in the United Kingdom, which appears to be the most developed markets within the EU.

03.2 Equity Release Plans in the United Kingdom

Equity Release Plans are defined as: "*financial products, or sale and lease arrangements, that allow home owners to release the value of their property above any amount owed on a mortgage. These schemes involve a provider giving the home owner either a lump sum or income (or both) on the basis of the value of the home. Providers receive their returns when the home is sold or vacated.*"[8] There are two main types of Equity Release Plans: [i] Home Reversion Schemes; and [ii] Lifetime Mortgages / Mortgage-Backed Equity Release Plans.

03.2.1 Home Reversion Schemes

A home reversion plan is an arrangement between a plan provider and home owner, comprising of one or more instruments or agreements, in which a plan provider buys all or part of a qualifying interest in property at a discount, in return for a lump sum payment or a regular income but the home owner retains the right to continue living in the property until the earlier of either death or moving to

[8] HM Treasury (2003) Regulating Home Reversion Plans – Consultation Document UK pg. 3.

another property. Under this agreement, the home owner would no longer remain the owner of part or all of the property that is sold. The plan provider would either own the property itself or find an investor for the property. The lump sum generated from the sale of property *inter alia* depends on: [i] the age of the owner/s; [ii] an actuarial assessment of life expectancy; [iii] the value of the property. The lump sum may be drawn in whole or it could be invested into an annuity or some other type of investment which provides the home owner with a regular income. In the case where either the home owner or the joint home owners moves to a nursing home or dies, the plan will terminate and the property is sold.

Other characteristics of home reversion schemes include:

i. the home owner is responsible for maintenance of the property;

ii. the terms of the agreement giving the right of the home owner to continue living in his own home vary, with some contracts requiring the payment of rent by the home owner;

iii. the plan can be taken out in joint names whereby it remains in-force until the second partner dies or is no longer living in the house;

iv. the buyer of the property will benefit from an increase in property value;

v. professional and independent valuations of the property are important;

vi. total income paid out depends on the life expectancy of the home owner, i.e. the longer a person lives, the better the value obtained on the property; and

vii. these plans cannot be cancelled or reversed.

Table 07: The advantages and disadvantages associated with Home Reversion Plans

Advantages	Disadvantages
The plans provide a one-off lump sum substantial amount to spend or to invest.	The value of the assets will be reduced by a significant sum and so reduce the amount of inheritance for the heirs.
There are no on-going repayments to be made and the plan provider earns revenue when the property is sold.	The plan can turn out to be quite expensive if the home owner dies soon after taking out the plan. This implies that the home owner would have sold part or the entire house quite cheaply - given that the plan provider buys the property at a discount in return for the home owner to continue living in the house.
A share of the home will be left to the heirs unless the home owner sold the entire house to the plan provider.	Some plans take a long time to be finalised and some plan providers are selective on the property they take.
The home owner will continue to share in any increase in the value of the property for the amount that he/she retained (unless the entire value is sold to the reversion company).	The home owner will not gain from any increase in the value of the property on the portion sold. No gain is made if the property is sold entirely at the outset to the reversion company.
The home owner can take extra cash advances, depending on the amount taken at the outset.	The home owner will be responsible for the upkeep and maintenance of the house.

Source: Age Concern (2004): Raising income or capital from your home

03.2.2 Lifetime Mortgages

With a lifetime mortgage, the home owner takes out a mortgage loan secured on the property. The loan can be used to fund an annuity and provide regular income (such as an annuity) or a lump sum payment. Such financial products can include drawdowns which provide a regular income which is not linked to investments. The amount of the loan is based on the age of the owners, their life expectancy and the value of the property. Ownership remains with the home owner. The loan including interest is repaid when the property is sold either: [i] on the event of the home owner's death; or [ii] if the home owner moves into long-term care. However, some of these plans provide the option that the home owner pays interest on the loan and only the principal amount is paid when the property is sold. Lifetime mortgages can be paid off at any time but charges may apply. In the case of such plans the home owner retains ownership of the home.

There are five types of lifetime mortgages which include: [i] home income plans; [ii] interest-only mortgages; [iii] roll-up mortgages; [iv] shared appreciation mortgages; and [v] fixed repayment lifetime mortgages.

03.2.2.1 Home Income Plans

In terms of this product, a plan provider issues a loan (usually in cash) to the home owner against the value of his/her property. The lump sum is used to buy an annuity to provide regular income to the home owner. Interest on the loan is deducted from the regular income, usually at a fixed rate. Normally the lump sum which was originally issued by the plan provider is repaid when the home is sold usually after death of the home owner. Where the plan has been issued in joint names, the loan is repaid until death of both parties.[9]
This type of plan appeals to people aged around eighty as: [i] higher income obtained at this age; [ii] a higher annuity payment at distributed at this age, given the few years over which the income will need to be paid.

Table 08: The advantages and disadvantages associated with Home Income Plans

Advantages	Disadvantages
Provided a scheme with a fixed interest rate is chosen, the income will remain unchanged over the person's lifetime, subject to any changes in the tax rates.	Not suitable for persons requiring a substantial lump sum of money.
Ownership of property is retained, thus the home owner gains from future increases in its value (and similarly loose out from any fall in value.	If such products are not indexed, income from these plans may be negatively affected from inflation.
	This plan will reduce the value of the assets of the home owner. It may turn to be expensive if the home owner dies soon after taking out the plan unless protected to a certain extent through a capital protection plan.
	These plans are beneficial for older people who obtain better annuity rates as their life expectancy is shorter.

Source: Age Concern (2004): Raising income or capital from your home

[9] Age Concern (2004) Raising Income or Capital from your Home pg. 10.

03.2.2.2 Interest Only Mortgage

This type of product, allows the home owner to take out a cash lump sum against the value of the property. The home owner in turn pays interest on the loan on a monthly basis at either a fixed or variable rate. The amount originally borrowed is repaid when the property is sold. The disadvantages associated with this mortgage are: [i] if interest rates are variable, one would be exposed to increases in the rate of interest and hence higher payments; and [ii] if one partner dies, the surviving partner may not be able to afford making interest payments.[10]

03.2.2.3 Roll-Up Mortgages

This type of mortgage allows a home owner to loan out a cash lump sum against the value of the property, which can either be taken as a lump sum or regular income. This type of contract requires no regular payment of interest, but interest is compounded on the principal amount of the loan. In this regard, the final amount payable either when selling the property or going to home care may be considerable when compared to the amount borrowed, given the compounding effect of this contract. The rates of interest on this type of contract may be fixed or variable.[11]

Table 09: The advantages and disadvantages associated with Roll-up Mortgages

Advantages	Disadvantages
These contracts provide a home owner with a sum of money without the payment of interest.	The amount payable on repayment accumulates rapidly through the compounding of interest.
The home owner retains ownership of the property.	This contract reduces the value of the home owner's property and so reduces the amount left to the heirs.
These contracts are available to people aged 55 onwards.	Interest rates can be high as the rate is fixed for the life of the loan which may span a long time prior to repayment.
	These plans are beneficial for older people who obtain better annuity rates as their life expectancy is shorter.

Source: Age Concern (2004): Raising income or capital from your home

03.2.2.4 Shared Appreciation Mortgages

This type of product, allows the home owner to take out a cash lump sum against the value of the property. No interest is paid by the home owner on this type of contract but when the property is sold in addition to the principal payment, the plan provider gets an agreed percentage of the increase in the value of the property.[12]

03.2.2.5 Fixed Repayment Lifetime Mortgage

This type of product, allows the home owner to take out a cash lump sum against the value of the property. No interest is paid by the home owner on this type of contract but when the property is sold, the plan provider is repaid the principal amount and an additional fixed amount agreed at the outset. The amount payable depends on the age and life expectancy of the home owner. In the event that

[10] Ibid pg. 13.
[11] Ibid pg.11.
[12] Ibid pg. 13.

death of the home owner occurs prior to the repayment of the mortgage, the plan provider may require interest on the repayment sum from date of death to the date until the mortgage is repaid.[13]

04. Equity Release Markets and Regulation

04.1 Introduction

The equity release market has been developed in the United Kingdom for the past thirty years and with the exception of Spain, but such products have only had a presence in the other EU Member States for five years or less. Therefore, equity release products are considered as a relatively new development in the EU. In this regard, this chapter will focus on the regulation of equity release products in the United Kingdom, given that this appears to be the most developed equity release market in Europe.

04.2 Equity Release Markets in the United Kingdom

In the United Kingdom, these products are used as a source of voluntary third pillar pension provision, namely targeting but not limited to those pensioners who receive a low pension and who may not necessarily have any other liquid savings.

The 2005 Property Paper indicated that there was no accurate information on the size of the equity release market in the United Kingdom at the time, and that conflicting information had appeared in the press about the total value of this market.[14] This notwithstanding, a 2004 report compiled by the Pensions Commission titled: "Pensions: Challenges & Choices".[15] estimated that at the time of writing of the report, in the United Kingdom only around 1% of pensioner householders were using these types of products given the: [i] higher interest rates associated with lifetime mortgages; [ii] the inherent risks of borrowing without knowing the maturity date of the loans; [iii] emotional attachment to property; [iv] the wish by many people to leave their property to their children.

In the meantime, the Safe Home Income Plans[16] ("SHIP") has issued certain industry statistics. Table 10 indicates that the value of home reversion plans in the UK expanded between 2004 and 2007. However, the financial crisis had a negative impact on this type of business, with a decline in value of 30.51% when compared with 2007. The equity release mortgage business in the UK registered moderate increases in the value of business in 2006 and 2007 with decreases in 2005 and 2008 when compared with the previous year.[17]

Table 10: The equity release market in the United Kingdom

Year	Equity Release Mortgage Business	%age change over previous year	Home Reversion Plans	%age change over previous year

[13] Ibid pg 13.
[14] HM Treasury (2003), Regulating Home Reversion Plans – Consultation Document, pg. 5.
[15] Pensions Commission (2004): Pensions: Challenges and Choices – The First Report pg. 194.
[16] SHIP is the United Kingdom's trade body for equity release product providers, representing the interests of its members who provide home income and equity release plans. It was launched in 1991 in direct response to the growing need for consumer protection. It represents the majority of the equity release market providers (over 90% of the equity release market in volume terms as at 31st December, 2008) in terms of volume and its members include the leading providers of lifetime mortgages and home reversion plans.
[17] The Safe Home Income Plans website available from: http://www.ship-ltd.org.

	GBP'000s		GBP'000s	
2004	1,151.80		40.50	
2005	1,048.90	-8.93%	54.60	34.81%
2006	1,080.80	3.04%	73.50	34.62%
2007	1,127.80	4.35%	82.60	12.38%
2008	1,038.30	-7.94%	57.40	-30.51%

Source: The Safe Home Income Plans Website

Notwithstanding the figures reported above, figures for the first quarter 2009 released by SHIP indicate an increase in the total value of equity release business written. Moreover, the changes to the Pension Credit announced by the British government in 2009 allow pensioners to increase to £10,000 the amount they are allowed to have in savings without affecting their benefits. This measure is deemed in the UK that it could help the development of the equity release market by releasing some equity in the UK pensioners' property.

04.2 Regulation of the Equity Release Markets in the United Kingdom

04.2.1 Lifetime Mortgages

First charge Lifetime Mortgages have been regulated in the UK by the Financial Services Authority ("the FSA"), which is the single Regulator of financial services in the UK, since October 2004.

The specific regulatory requirements applicable to Lifetime Mortgages are targeted towards avoiding certain detrimental features that have surfaced in the past in the UK. As an example due to variable interest rates, people ended up owing more than their home was worth in total. In fact, post such scandals, SHIP required its member product providers to include 'no-negative' guarantees to cater against this risk. '*No-negative*' guarantees require product providers to guarantee plan holders that the value of the granted loans would not rise beyond the value of the property.

Regulation of Lifetime Mortgages in the UK is based namely on rules which instruct: [i] what providers must tell lifetime mortgage borrowers when they take out such plans, [ii] the competence of retail staff selling such mortgage plans and [iii] the internal control requirements of authorised firms.[18]

Specific rules on disclosure have been established, requiring firms to issue consumers with a "*key facts illustration*" in a standard format. In this way, consumers are able to compare products between themselves, and so consumers will be in a better position to take an informed decision about the most suitable product for them, reducing the likelihood of future mis-selling. The use of this standard "*key facts illustration*" contributes towards transparency of pricing, also encouraging competition.

Mortgage regulation focuses also on advertising requirements, requiring mortgage adverts to be balanced, clear, fair and not misleading. The FSA has set various rules with which firms selling these types of plans need to comply with when issuing adverts about their products.

Another key requirement is for lifetime mortgage providers to assess the suitability of these products for the individual. Also, authorised firms are expected to train their staff properly and ensure that they have proper internal controls in place for monitoring the sales activities. These products are not reversible and in the majority of cases involve the major asset of an elderly individual who may not necessarily be in a position to assess all the implications involved on his/her own, particularly if subjected to aggressive sales techniques. There are various aspects one needs to consider and hence the provision of adequate advice is essential.

[18] FSA website: http://www.fsa.gov.uk.

Senior management is also expected to take responsibility for the product design and marketing process.

Moreover, through regulation, if lifetime mortgage providers do not follow the conduct of sale rules and something goes wrong, the borrower will have a right to seek redress. The FSA is also developing a consumer educational campaign about these type of products.

04.2.2 Home Reversion Plans

The FSA is also responsible for the regulation of home reversion plans. Regulation of these products came into force on the 6th April, 2007. This legislation is similar to other forms of legislation which regulates: [i] lifetime mortgages; and [ii] conventional mortgages for home purchase plans. The new rules are included in the Mortgages and Home Finance: Conduct of Business ("*MCOB*") Sourcebook which are contained in the FSA's handbook. The regulatory regime consists of eleven "high-level" conduct of business principles, which apply to all financial transactions within the FSA's jurisdiction.[19] The MCOB include matters such as advertising and promotion (MCOB 3), responsible lending (MCOB 11), and charges (MCOB 12) applicable to all regulated mortgage and home finance products. Furthermore, the MCOB adapt the FSA's rules on disclosure requirements (MCOB 9) and the provision of advice on such products (MCOB 8) to the particular circumstances of equity release contracts.

The FSA's authority to regulate equity release schemes stems from the Financial Services and Markets Act, 2000 as amended by the Regulation of Financial Services (Land Transactions) Act, 2005. Any person who provides, administers, arranges for or advises on equity release schemes must be authorised or apply from exemption from authorisation. Authorisation requires the firm to meet a number of conduct of business obligations and prudential supervisory requirements listed in the UK legislation. Intermediaries selling such products require authorisation by the FSA and are bound by a code of conduct. The FSA has detailed conduct of business rules which ensure consumer protection. Such rules *inter alia* rules on: [i] advertising; [ii] client profile requirements; [iii] the form and content and timing of information and disclosure to clients or potential clients prior to entering into a contract; and [iv] a complaints procedure for consumers of equity release products.

The FSA enacted legislation to regulate home reversion plans to ensure that:

- firms offering these products must be fit and proper and appropriately resourced with staff competent to undertake this business;
- consumers will get clear, concise and consistent information about a firm's services and products on offer (including appropriate risk warnings) so they can make informed choices;
- consumers will get good quality advice and be sold suitable products which take account of their circumstances and needs; and
- if things go wrong, consumers are able to obtain redress, if appropriate.[20]

Moreover, the consultation document issued by the FSA in April 2006 stated that the main concern for regulating home reversion and home purchase plans was to ensure protection of consumers which according to the FSA are subject to the following potential risks:

- *potentially vulnerable consumers*: home reversions are primarily intended for older and potentially vulnerable consumers;

[19] The eleven principles, which the FSA describes as "the fundamental obligations of all firms under the regulatory system" are published in the FSA's Principles for Business Handbook (PRIN), available at: http://fsahandbook.info/FSA/html/handbook/PRIN/2/1.

[20] Green light for new home finance regulation; [Online] The new rules are included in the Mortgages and Home Finance: Conduct of Business Sourcebook which are contained in the FSA's handbook.

- *mis-buying*: consumers may not appreciate the adverse implications of taking out a home reversion plan;

- *mis-selling*: consumers may be advised to take out a home reversion where an alternative means of raising the required funding would have been preferable;

- *need for legal advice*: consumers may not appreciate the importance of obtaining professional legal advice before entering a home reversion contract;

- *fair valuations*: consumers may not receive a fair price for their property as a result of an unreasonably low valuation;

- *rights as tenant*: consumers could be disadvantaged if the provider fails to exercise its rights as 'landlord' fairly through the life of the plan; and

- *security of tenure*: consumers may also be at risk of losing their security of tenure or in the case of partial reversion, their residual interest in the property, if the provider sells their house to a third party or becomes insolvent.[21]

05. Equity Release Products: The Local Scenario

05.1 Introduction

This section of the Report explores whether there is a market for equity release products in Malta.

05.2 Development of Equity Release Products Market in Malta

According to a survey on Perceptions on Retirement and Pensions, carried out by the National Statistics Office in 2005, only 1.5% of the respondents at the time saw property as a possible source of retirement income. As illustrated in Table 11, out of the total respondents, only those aged between the ages of 25 and 54 attributed property as a potential source of income for their retirement. Respondents aged between 18 to 24 and 55 to 64 did not link property to retirement income.

A possible cause could be that it is generally the norm that people aged between 18 and 24 do not own their own property. Moreover, the older age group may be attached to their property and therefore may be reluctant to convert their property into retirement income. There could be various other reasons why this age group did not consider property as a potential source of retirement income. However although the question in the survey did not specifically refer to release of property for equity release purpose but rather to the sale of property for retirement, and the survey did not distinguish between the sale of the main or second property, these statistics may hypothetically indicate the beginning of a culture change as to how some home owners view their property and how much they are attached to their property. It would be insightful if an update of this survey is carried out in order to reassess the perceptions and associations of people as a possible indicator of potential demand for equity release products.

[21] Regulation of Home Reversion and Home Purchase Plans pg. 17.

Table 11: Distribution of potential pensioners by possible main sources of income on retirement and by age group.

Possible Sources of Income on Retirement	Ages								Total	
	18 - 24		25 - 34		35 - 54		55 - 64			
	No.	%	No.	%	No.	%	No.	%	No.	%
Government Pension	18	32.10%	18	40.90%	67	79.80%	14	93.30%	117	58.80%
Private Pension	15	26.80%	13	29.50%	7	8.30%	0	0.00%	35	17.60%
Interest and/or other investment income	7	12.50%	6	13.60%	3	3.60%	0	0.00%	16	8.00%
Income from part time work	5	8.90%	2	4.50%	1	1.20%	0	0.00%	8	4.00%
Income from sale of property	0	0.00%	2	4.50%	1	1.20%	0	0.00%	3	1.50%
Do not know	11	19.60%	3	6.80%	5	6.00%	1	6.70%	20	10.10%
Total	56	100.00%	44	100.00%	84	100.00%	15	100.00%	199	100.00%

Source: Perceptions on retirement and pensions, 2005, National Statistics Office

Equity release plans may prove to be attractive in view of the demographic changes to the population. Statistics from the Census of the Maltese population carried out in 2005 indicated that in November 2005, the average age of the population stood at 38.5 years, when compared to 35.7 years in 1995 and 33.8 in 1985. Moreover, there was a marked decline in the number of persons less than 15 years resulting from a declining fertility rate. The number of people aged 0 to 14 years totalled 69,486, or 16.1 per cent less than in 1995 and there was a significant increase among the older age groups. The 50 to 64 age group increased by 42.5 per cent in the 10 years since 1995 while the 65 and over age group grew by 28.6 per cent to stand at 55,671 persons.[22] Statistics from the census carried out in 1995 and 2005 indicate an increase in the number of single person households, where the number of single person households out of total households increased from 14.8% in 1995 to 18.9% in 2005.

Figures from the census carried out in 2005 appear to follow the results of the Structure Plan for the Maltese Islands (2002), which indicate that the number of single person households in Malta is increasing. The Structure Plan attributes this growth in single person households to increases in: [i] the number of young married couples remaining childless; [ii] mature persons living independently; [iii] single parent households; and [iv] returned migrants. Moreover the number of single person households is expected to increase by 2020. It is hypothesised that the main increase in this population category will arise from the growing number of such households between the ages of 20 and 40, as well as a rise of 10 per year in single male (aged 25 – 30) households, amongst other reasons.[23]

These demographic changes in households and the population, coupled with a high home-ownership percentage, and possibly a culture change towards property, may lead to the emergence of equity release markets in due course. Although no data and official information is available, it appears that there are some incentives already available on the market related to care arrangements for elderly couples which involve some form of use of property equity by the elderly individuals. However, as already indicated detailed research would need to be carried out to assess the impact of such changes on developing the equity release products market in Malta.

[22] Census of the Maltese Population 2005.
[23] Housing Topic Paper (2004) pg. 22 – 23.

05.3 Equity Release Products: Impact on the Maltese Legislation

In Malta, there is no legal framework which provides for the regulation of equity release products. This notwithstanding, it should be noted that legislation regulating the operations of credit and financial institutions already regulate the provision of loans to the public.

In this regard, if the equity release market is to be developed in Malta a cost benefit analysis of the introduction of this regulatory regime should ideally be carried out in comparison with potential demand for Equity Release Products. Further research on the implementation of a proper regulatory regime to ensure: [i] proper conduct of business by entities providing these products; and [ii] adequate protection of consumers should also be carried out.

The tax implications of equity release products would also need to be considered. In addition, the impact of such products on property legislation in particular to laws relating to inheritance would also need to be assessed. Moreover there may also be scope for these type of plans to be assessed from a property / housing policy perspective – particularly in home reversion plans where product providers as well as consumers would be actually taking a position on the property market.

06. Recommendations and Way Forward

The purpose of this Paper was to analyse the changes in the social, economic and demographic scenarios since the publication of the 2005 Property Paper, and to reassess the validity of the recommendations of the 2005 Property Paper in terms of the current scenario.

Findings from this Paper concur with the recommendation of the 2005 Property Paper that property should not be seen as a substitute source of retirement income to Second and Third Pillar pensions – but rather as a complement thereto, since there could be a section of the population which could consider property as an optional source of income under the Third Pillar Pension.

However, the question is whether there is scope to actively / formally propose the development of such a market, and if so whether it should be regulated.

It is recommended that these questions can only be answered following first and foremost the undertaking of further research on the savings pattern of the Maltese population with the aim of: [i] identifying Malta's savings ratio; and [ii] the portion of an individual's wealth which is invested in property and the spread thereof among the population; and [iii] determining any existing arrangements which contain elements of equity release schemes.

It is also suggested that this research should be complemented with an impact assessment on the take up of such products by the Maltese population. This impact assessment could *inter alia* analyse: [i] the impact of the Maltese traits and perceptions on giving up their property for future income; [ii] the cost of an awareness and educative campaign aimed at introducing such products in Malta; and [iii] the negative impact of adverse fluctuations in property prices which could have on consumers of such products. Moreover, the impact assessment would also need to incorporate any trends in the rental market, which might be brought about by the rent reform.

The taxation and inheritance aspects would also need to be looked into.

Lastly, if demand for Equity Release products results, it is recommended that further research is carried out regarding the need or otherwise of a regulatory regime for such plans. The introduction of legislation in this area should be accompanied by a cost benefit analysis especially if research shows that there will be a limited market in such products.

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