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Discussion of “Housing Equity Release, Old-Age Income, and Public Finances”

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My Summary

- › Finnish households do not withdraw housing equity during retirement.
- › This happens because the tax system favours the holding of housing equity vis-à-vis life annuities.
- › A relaxation of the taxes levied on life annuities would increase housing equity withdrawal.
- › Annuity holdings would increase government tax revenue and household's welfare.



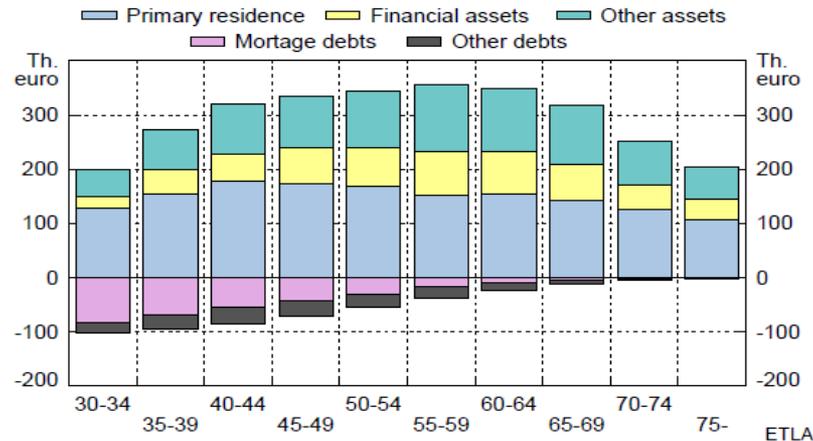
Major Comments

- › The paper presents taxation of life annuities as they main reason why housing equity is not withdrawn.
- › The literature offers many competing explanations, e.g.
 - Bequest motive; Nakajima and Telyukova (2011 NFI WP)
 - Precautionary savings; Coile and Miligan (2009 RIW)
 - Transaction costs; Li and Yao (2007 JMCB)
- › There are as well competing explanations of why the market for life annuities is so small, e.g.
 - Adverse selection; Heijdra and Reijnders (2012 DE)



Major Comments

- No evidence showing lack of home equity withdrawal during retirement in Finland.



- “Households older than 60 have usually already paid back their mortgage.”



Major Comments

- › **Imputed rent:** The benefit gained by a homeowner-occupier compared with a corresponding household living in a rental dwelling with market rent.
- › A lives in B's property, B lives in A's. Each pays rent to the other. If A and B were owner-occupiers, there is no transaction but we have the same economic reality: two owners and two occupiers.



Major Comments

$$(1 + \tau^c)c_j + h_j + a_{j+1} = h_{j-1} - (1 + \tau^c)\delta h_{j-1} + R_j a_j + e_j + (1 - \tau^b)\bar{b} \quad (2)$$

$$b_{j+1} = h_j - (1 + \tau^c)\delta h_j + R_{j+1}^b a_{j+1} \quad (3)$$

$$a_{j+1} \geq -(1 - \gamma_j)h_j. \quad (4)$$

- > Housing and annuities are competing assets.
- > How is the return to housing (imputed rent) modelled?
- > No bequest motive \Rightarrow households want to liquidate the housing asset before they die and consume the proceedings.



Minor Comments

- › How well does the calibration of taxes and earnings match actual data?
- › How does the calibration of β (rate of uncertainty) and of α (utility parameter) stand in comparison with the literature?
- › Reverse mortgages are found to encourage the use of housing as a savings instrument \Rightarrow non-housing consumption decreases \Rightarrow tax revenue decreases.



Minor Comments

- › Conclusions are drawn on the consequences for household's welfare but the model offers no results on that regard.
- › Introduction: "Because of comprehensive compulsory pension system, there is relatively little need for private pension systems."
- › Do subjective survival probabilities match with the ones on the life tables.



Thanks for your attention