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.
The paper presents taxation of life annuities as the main reason why housing equity is not withdrawn.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 are B were owner-occupiers, there is no transaction but we have the same economic reality: two owners and two occupiers.
Major Comments

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

\[
b_{j+1} = h_j - (1 + \tau^c) \delta h_j + R^b_{j+1} a_{j+1} \quad (3)
\]

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

› Housing and annuities are competing assets.
› How is the return to housing (imputed rent) modelled?
› No bequest motive ⇒ 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 $\beta$ (rate of uncertainty) and of $\alpha$ (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.
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