

The welfare gain of the lifecycle mortgage

“Households mainly want to use extra financial space to cope with financial setbacks”

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What is the focus of the paper?

A lifecycle mortgage is a type of mortgage in which repayment and interest payments are adjusted to the financial situation of homeowners over their life course. The mortgage consists of a combination of a regular annuity loan and a reverse mortgage. This structure allows housing costs and disposable income to be spread more evenly across different stages of life.

The paper examines how a lifecycle mortgage can support households at different life stages and explores homeowners' preferences regarding the need for additional financial space. It also shows how mortgage products can be designed to make home equity, particularly housing wealth, more effectively accessible, thereby generating higher welfare gains.

What are the key findings?

A lifecycle mortgage can support both first-time buyers and older homeowners in the housing market. First-time buyers gain additional financial flexibility during the often constrained early years, taking expected income growth into account. Older homeowners can unlock accumulated housing wealth by drawing down part of their home equity. These applications can result in substantial welfare gains.

The current market for reverse mortgages, however, remains limited in size and is mainly targeted at people aged 60 and over. As a consequence, a large share of housing equity is still only used to a limited extent.

The research shows that households primarily want to use a reverse mortgage to cope with financial setbacks, and much less for purposes such as improving the energy efficiency of their homes.

What are the implications?

Innovation is required to ensure that mortgage products align more closely with households' preferences and needs. The mortgage variants discussed are relatively complex and therefore difficult for consumers to assess.

Governments and regulators can play a role by providing clear, reliable information and active guidance. In addition, following the example of successful international initiatives, platforms can be established to make it easier for households to access and use housing wealth in a responsible way.

Want to know more? Read the paper (in Dutch):

Een levensloophypotheek in combinatie met pensioenvermogen