A HOME EQUITY DISSAVINGS PROGRAM
FOR ELDERLY HOMEOWNERS

by

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B.A., University of British Columbia, 1972

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS

in

THE FACULTY OF GRADUATE STUDIES
School of Community & Regional Planning

We accept this thesis as conforming
to the required standard

THE UNIVERSITY OF BRITISH COLUMBIA
June, 1977

(Anne Lorraine Davis}
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Vancouver, Canada
V6T 1W5

Date MAY 2, 1977
This thesis addresses the problems of elderly homeowners who wish to remain in their house, but have financial difficulties doing so. Using Census data and data from other Statistics Canada surveys, an examination is made of the financial position of elderly homeowners. It is found that the elderly as a group have low and sometimes inadequate current incomes following retirement. Elderly homeowners are found to have a good overall financial position because their house, usually owned mortgage-free, constitutes a valuable asset. However, this is not a liquid asset. Presently the only way to convert home equity into cash is to sell or rent the house and move out. Yet studies show a strong preference among the elderly for keeping their house as long as they are physically and financially able to do so. Thus a dilemma exists. An examination of current government housing policies relating to the elderly and of existing private financial instruments reveals that little help is available to elderly homeowners facing this dilemma.

This thesis investigates alternative "dissavings" plans - financial arrangements which would allow elderly homeowners to consume the equity in their house while continuing to live there. Using up savings in old age is a rational process. When young people build up their home equity they mortgage their future income to acquire the asset, and when elderly people use up their home equity they mortgage their asset to acquire an increased flow of income.
The details of three main alternative types of home equity dissavings plans are presented: a split equity housing annuity plan, a nonrepayable loan, and a sales-leaseback agreement. Monetary examples of the financial benefits which these plans could provide for some typical elderly homeowners are worked out. Using the results from two previous surveys of elderly homeowners, a general literature review, discussions with representatives from financial institutions, and reflections by the author, an examination is made of possible difficulties perceived by elderly homeowners, financial institutions and government planners and policy-makers regarding dissavings plans.

It is concluded that the objections do not make a home equity dissavings program infeasible. Thus necessary steps for implementing such a program are recommended. It is felt that private financial institutions should be able to offer the program, but that initial government involvement would be essential. It is not recommended that the government actually set up and run the program either initially or on a long-term basis since this would involve duplicating functions which existing private financial institutions are already providing. It is recommended instead that the government should do some of the initial groundwork for the program and after that simply act as a guarantor to private financial institutions.

Some aspects of the federal government's recommended role are as follows:

1. It should conduct market research of potential users.
2. It should investigate and effect necessary changes in federal and
provincial legislation to remove legal barriers to implementing a dissavings program.

- It should initiate detailed dialogue with private financial institutions in order to negotiate the terms of government involvement under which financial institutions would be willing to participate in a dissavings program.

- It should undertake an educational and publicity program presenting the logic of dissaving in old age and helping elderly homeowners to grasp the implications of the proposed plans.

- On an on-going basis it should supervise and regulate the operation of the dissavings program in order to safeguard the interests of elderly homeowners.
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ACKNOWLEDGEMENTS

I would like to thank my advisors, Brahm Wiesman and Ann McAfee, for their constructive criticism and encouragement during the preparation of this thesis.

Thanks are also due to David Baxter and Dale Bairstow for their invaluable assistance at various stages of the thesis preparation.
CHAPTER 1: INTRODUCTION

I. STATEMENT OF THE PROBLEM

A. Housing Related Problems of Senior Citizens

Senior citizens tend to have a number of different problems which have implications for housing:

1) Senior citizens often have financial problems as a result of significantly decreased incomes following retirement. In turn, this often makes it difficult to afford the same quality or quantity of housing as that to which they have been accustomed, and comes to be seen as a "housing problem".

2) Senior citizens often have changed space requirements, as a result of their stage in the family life cycle. Often their children have grown up and left the family home, leaving the elderly person or couple with more housing space than they require or desire. The death of a spouse reduces space requirements still further. Thus their housing becomes ill-fitted to their needs, and they may be seen as "overhoused".

3) Senior citizens usually have more health problems and physical limitations than younger people, as a natural result of the aging

---

1 The terms 'senior citizens' and 'the elderly' are used interchangeably throughout the thesis to refer to persons over 65 years of age. This age was chosen because it is a common age for retirement, the age at which federal government pensions such as Old Age Security and Guaranteed Income Supplement begin, and a usual age category for which government statistics are available. However, this age boundary is somewhat arbitrary, and some sections of the thesis make reference to Mincome recipients - low income B.C. residents over the age of 60.
process. This can come to be reflected as a housing problem, when senior citizens can no longer keep up the yard or do all the housework in their house or apartment because of declining physical capacity.

4) Senior citizens often suffer from the social problem of loneliness. Retirement brings the loss of daily social contacts. With advancing years, the likelihood of the death of friends, spouse and other family members increases. Decreased mobility may cut senior citizens off from remaining friends and family (McAllister, 1975a, pp. 2-4). As a result, elderly persons may feel very isolated in their present home and may wish to move into a relative's home or into senior citizens' housing in order to increase social contact.

5) Senior citizens tend to have more difficulty adjusting to major changes in their life than younger people (McAllister, 1975b, p. 5). They are also more likely to have lived in their present house for a considerable period of time and have an emotional attachment to it. This can make moving a traumatic experience for the elderly, especially if they not only have to move out of their house but also out of their familiar neighborhood because of a lack of suitable housing options within the neighborhood. Thus, they may have a location problem.

Because all of the above problems have implications for housing and often constrain housing choices, they come to be perceived as
B. Housing Related Problems of Elderly Homeowners

Elderly homeowners may have to contend with some or all of the above problems. As Chapter 2 will demonstrate, elderly homeowners often have low incomes. For senior citizens who do not wish to move from their house this can create a financial squeeze which curtails their desired lifestyle. Some may be forced to sell their house and move out in order to obtain extra money. Other senior citizens may be forced to move out of their house because the physical strain of keeping up a house and yard is becoming too great. Still others may choose to move out of their house because they have more space than they desire or because they desire increased social contacts. However, moving out of their house causes its own problems. Leaving the familiar family home after many years of residence is a major life change which may cause great emotional strain. Elderly homeowners also tend to have an attachment to their familiar neighbourhood, which is not compensated for by a dwelling unit in another area even if it is more suitable in terms of physical structure (Shanas in Busse, 1969, p. 140). Since many urban "single family" neighbourhoods contain no smaller accommodation such as townhouses or apartments, elderly homeowners who move from their house must often face the adjustment to a new neighbourhood, with new patterns

---

1 In this thesis the term 'homeowner' refers to the owner of a single family detached house.
of shopping, visiting, churchgoing, recreating, etc. Added to these strains of moving is the concern over giving up "rent-free" accommodation as well as a major investment which acted as a hedge against inflation. Many older people worry that if inflation continues and if they live for a long time, the money from their house may run out before they die.

C. Focus of the Thesis: Financial Problems of Elderly Homeowners Who Wish to Remain in their Houses

Further research focusing on both homeowners and tenants needs to be done on all the problems outlined above, with the aim of formulating suitable policies and programs. However, this thesis will focus on only one of these problem areas: the dilemma of elderly homeowners who wish to remain in their house, but have financial difficulties doing so.

Senior citizens may wish to remain in their house for any of a number of reasons. Various studies of the elderly have indicated that they are usually satisfied with their dwelling units (Rosow, 1967, p. 333; Hamovitch, 1969, p. 32; Audain, 1973, p. 2). Bairstow (1976, p. 24), in a study of low income elderly British Columbians found that only 9 per cent of the elderly homeowners in his sample were dissatisfied with their current housing. Other studies have shown strong preferences among the elderly for keeping their houses as long as they are physically and financially able to do so (Daniels, 1975, p. 7). This tendency may arise from the perceived economic security provided by homeownership, psychological pride of homeownership, emotional attachment to their house or neighbourhood, physical suitability of the
house to their needs, or inertia (Institute of Industrial Relations, 1970, p. 831).

The focus of the thesis - "elderly homeowners with financial difficulties" - is not intended to be a tightly defined category. For instance, the category is not limited only to elderly homeowners who have difficulty paying for the basic necessities - shelter, food and clothing. It also includes elderly homeowners who do not have enough income or available savings for the little "extras" they desire, such as eating in a restaurant, buying gifts for grandchildren, playing golf, going to the theatre, buying books, or whatever. It even includes elderly homeowners who must forego larger desired expenditures such as vacations. Thus the thesis considers the problems of all elderly homeowners wishing to remain in their houses whose desired lifestyle is curtailed by limited income and savings.

Though many elderly homeowners have an income problem, their overall financial position is actually good because they possess a large asset - their house. However, the crux of the problem is that this is not a liquid asset. Presently the only way to convert home equity into spendable money which can be used for desired expenditures is to sell or rent the house and move out. Yet this is an option many elderly homeowners do not favour, for reasons outlined above. Thus a dilemma currently exists.
II. SIGNIFICANCE OF THE STUDY

A. Magnitude of the Problem

The first major justification for studying this problem is that it affects a significant number of people.

According to the 1971 Canadian Census, as shown in Table 1, 18.7 per cent of all owner-occupied dwellings in British Columbia had a household head over 65 years of age.³

Table I: Number of Dwellings in B.C., 1971, by Age of Household Head

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>All Dwellings</th>
<th>Owner-Occupied Dwellings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>48,380 (7.2%)</td>
<td>8,425 (2.0%)</td>
</tr>
<tr>
<td>25-34</td>
<td>133,705 (20.0%)</td>
<td>65,305 (15.5%)</td>
</tr>
<tr>
<td>35-44</td>
<td>131,930 (19.8%)</td>
<td>95,720 (22.7%)</td>
</tr>
<tr>
<td>45-54</td>
<td>125,435 (18.5%)</td>
<td>94,965 (22.5%)</td>
</tr>
<tr>
<td>55-64</td>
<td>105,930 (15.9%)</td>
<td>78,960 (18.7%)</td>
</tr>
<tr>
<td>65 and over</td>
<td>121,935 (18.3%)</td>
<td>79,135 (18.7%)</td>
</tr>
<tr>
<td>Total</td>
<td>667,330 (100%)</td>
<td>422,510 (100%)</td>
</tr>
</tbody>
</table>

(Statistics Canada, 1975b, Housing: Dwelling Characteristics, p. 35-21)

³ A Census "dwelling" refers to any structurally separate set of living quarters with a private entrance from outside or from a common hallway or stairway inside the building. Thus an owner-occupied dwelling does not necessarily refer to a single-detached house. A Census "household" consists of a person or group of persons occupying one dwelling. Every person is a member of some household and there is a one-to-one relationship between households and occupied dwellings. For Census purposes, the "household head" is the husband, if both husband and wife are present, the parent (regardless of age or dependency) if living with unmarried children, or any member of a group sharing a dwelling equally.
In Metropolitan Vancouver, 17.8 per cent of all owner-occupied dwellings in 1971 had a household head over 65 years of age, as shown in Table 2.

Table II: Number of Dwellings in Metropolitan Vancouver, 1971, by Age of Household Head

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>All Dwellings</th>
<th>Owner-Occupied Dwellings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>24,945 (7.2%)</td>
<td>2,620 (1.3%)</td>
</tr>
<tr>
<td>25-34</td>
<td>69,835 (20.2%)</td>
<td>30,565 (15.0%)</td>
</tr>
<tr>
<td>35-44</td>
<td>67,885 (19.6%)</td>
<td>48,110 (23.6%)</td>
</tr>
<tr>
<td>45-54</td>
<td>65,930 (19.1%)</td>
<td>47,905 (23.5%)</td>
</tr>
<tr>
<td>55-64</td>
<td>54,840 (15.9%)</td>
<td>38,115 (18.7%)</td>
</tr>
<tr>
<td>65 and over</td>
<td>62,440 (18.1%)</td>
<td>36,295 (17.8%)</td>
</tr>
<tr>
<td>Total</td>
<td>345,870 (100%)</td>
<td>203,615 (100%)</td>
</tr>
</tbody>
</table>

(Statistics Canada, 1975b, Housing: Dwelling Characteristics, p. 36-11)

Looking at the magnitude of the problem from a different angle, a large proportion of all senior citizens are homeowners. In British Columbia in 1970, 78.5 per cent of non-farm families having a household head 65 years or older were homeowners, compared to 68.8 per cent of all non-farm families (see Table 3). As will be shown in Chapter 2, a substantial percentage of these elderly homeowners have low incomes and thus are likely to suffer from financial difficulties.

4 Except where otherwise noted, a "family" will refer throughout the thesis to a group of individuals sharing a common dwelling unit and related by blood, marriage or adoption. A family is defined as "non-farm" if none of its members has received 50% or more of his/her income from farm self-employment.
Table III: Proportion of Non-farm Families Owning Houses by Age of Head, B.C., 1970

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>Proportion Owning Homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>- (no info.)</td>
</tr>
<tr>
<td>25-34</td>
<td>48.1</td>
</tr>
<tr>
<td>35-44</td>
<td>78.0</td>
</tr>
<tr>
<td>45-54</td>
<td>83.9</td>
</tr>
<tr>
<td>55-64</td>
<td>79.7</td>
</tr>
<tr>
<td>65 and over</td>
<td>75.8</td>
</tr>
<tr>
<td>Total</td>
<td>68.8</td>
</tr>
</tbody>
</table>

(Statistics Canada, 1974c, Survey of Consumer Finances, Volume 1, p. 139)

B. Current Lack of Adequate Solutions to the Problem

A second major justification for this study is that no adequate solution to the financial problems of elderly homeowners wishing to remain in their homes currently exists.

1. Government Policies

As will be shown in more detail in Chapter 3, government responses to date to this problem have been inappropriate or inadequate. There are two provincial government housing programs relating directly to elderly homeowners. The provincial homeowner's grant, which provides a direct subsidy to elderly homeowners, will be shown to be inappropriate, since elderly homeowners are not financially badly off when their total financial picture is considered. The provincial Real Property Tax Deferment program is a more appropriate program, but its benefits are not large enough to entirely solve the problem under consideration.
Other federal and provincial government housing programs are inappropriate for elderly homeowners wishing to stay in their houses, since they concentrate on producing new senior citizens' housing units, either through production subsidies or direct government building, and are geared for senior citizens with low incomes and few assets. Likewise, federal and provincial shelter allowances do not apply to elderly people wishing to remain in their own houses, and in many cases would not apply to elderly homeowners even if they sold their house, because their asset holdings would then be too large.

2. Private Financial Instruments

As Chapter 3 will demonstrate, financial institutions presently provide little assistance for elderly homeowners who wish to remain in their houses but desire additional money for current expenditures. Elderly homeowners can get loans from financial institutions, but not the type they are likely to need. According to the analysis of the problem presented earlier, elderly homeowners would need fairly large loans on a long term basis in order to pursue a desired lifestyle involving an increased expenditure level. What financial institutions most willingly provide for elderly homeowners are small, fully-secured, short-term loans. Elderly homeowners can remortgage their house, but here again repayment cannot be delayed, and in addition the overhead costs for this procedure are quite high.

Thus it is not presently possible for elderly homeowners to "dissave" by progressively consuming the equity in their
houses. Therefore, solutions to the financial problems of elderly homeowners require further investigation, accompanied by recommendations for government or private action.

III. AIMS OF THE THESIS

This thesis attempts to accomplish four main tasks:

1) to examine the financial position of elderly homeowners in greater detail;

2) to investigate alternative dissavings plans which would allow elderly homeowners to consume the equity in their houses while continuing to live there;

3) to examine difficulties regarding dissavings plans which may be perceived by elderly homeowners, potential sponsoring institutions or government policy-makers and planners;

4) to make recommendations for implementing a dissavings program for elderly homeowners.

IV. APPROACH

In Chapter 2, the financial problems of elderly homeowners are examined using Census data, data from other Statistics Canada surveys, and information from other Canadian studies.

5 "Dissaving" is the process of using up accumulated savings rather than adding to them. Thus it is the opposite of saving.
Chapter 3 examines the lack of adequate existing solutions to the financial problems of elderly homeowners who wish to remain in their houses. The first part of the chapter describes and critiques the current government housing programs pertaining to financial problems of the elderly in British Columbia. Information for this section was gathered from government publications, conversations with government employees, and a review of relevant Canadian literature.

The second part of the chapter presents the lack of financial instruments offered by private Canadian financial institutions to alleviate the financial problems of elderly homeowners. Information for this section was mainly obtained through conversations with management-level employees of private financial institutions.

Chapter 4 presents a detailed examination of the concept of a home equity dissavings plan for elderly homeowners. Three main alternative types of dissavings plans are outlined. Two of these plans - a split equity housing annuity plan and a nonrepayable loan - have been described in American literature by Chen, Daniels and Guttentag. The third type of plan - a sales-leaseback agreement - was not found described in the reviewed literature.

Using the published results from two American surveys of elderly homeowners, a general literature review, plus original thought, possible objections by senior citizens to the concept of a dissavings plan are examined. Possible difficulties perceived by government planners and policy-makers regarding a dissavings program are identified and examined using a literature review, informal conversations with a number
of professors, plus original analysis. Difficulties perceived by potential financial sponsors regarding a dissavings program are also examined, using a literature review, conversations with management-level employees of private financial institutions, and original thought. Throughout the discussion of possible difficulties and objections, an attempt is made to show the different comparative advantages and disadvantages of the three alternative types of dissavings plans.

In the final section of the chapter, relevant monetary examples of the financial benefits these plans could provide to elderly homeowners are worked out.

Chapter 5 gives conclusions and recommendations based on the findings of the earlier chapters. It deals largely with various issues relating to implementation of the program – which dissavings plan should be chosen, who should be eligible for the program, who should implement the program and how it should be implemented. Other programs relating to elderly homeowners which should be pursued simultaneously are also recommended.

V. SCOPE AND LIMITATIONS

It is recognized that a "market test" of Canadian elderly homeowners in order to obtain reactions to proposed dissavings plans would be a very important step in the further development of the dissavings concept. Feedback from potential users is essential in designing programs which are responsive to the actual concerns of people and determining the magnitude of difficulties. However, the intent of this
thesis is to examine the basic mechanics of various dissavings plans and to deal with the difficulties which they raise. It was considered beyond the scope of the thesis to undertake interviews with potential users, since this would introduce a whole new set of methodological and substantive concerns into the thesis. It is assumed that prior to any attempt to implement a dissavings plan for elderly homeowners, a market test would be carried out and the plan would be modified in light of the findings.

Thus, possible objections by senior citizens to participating in a dissavings plan were drawn largely from secondary sources. Heaviest use was made of the two surveys conducted in the United States, one in New York and one in California, both of which elicited the opinions of senior citizens regarding a split equity type housing annuity plan. The likely difficulties suggested in these studies were judged to be of a fairly general nature, and were considered to be applicable in a Canadian as well as an American context. The survey results were not used to draw specific conclusions about the magnitude of these difficulties in a Canadian context. In order to ascertain this information, a Canadian study would have to be carried out. An attempt was made to think through the implications of the various difficulties for the other two types of dissavings plans - the non repayable loan and the sales-leaseback agreement, since the American studies did not test reactions to these types of plans. An attempt was also made, where possible, to introduce Canadian information in answering the difficulties.

The discussion of difficulties perceived by potential financial
sponsors regarding a dissavings program was based largely on conversa-
tions with four management-level employees of private financial
institutions in Vancouver (see "Bibliography" for details). Many
helpful comments were obtained, but it was found to be difficult to
come up with a comprehensive and definitive list of difficulties
perceived by financial institutions. The proposed dissavings program
is so complex and has so many ramifications that it was difficult to
obtain more than general "off the top of the head" comments. Financial
institutions would have to invest a considerable amount of time involving
many different people in researching the proposal before they would be
able to give more specific comments. Financial institutions obviously
would not be willing to invest this amount of effort in a student
project. Thus it was not felt to be profitable to interview more
than four employees of financial institutions, since there was a fair
amount of agreement among the general comments of people interviewed,
and it became obvious that more detailed comments based on specific
research would not be forthcoming from this approach.

Apart from the use of American literature on dissavings plans for
elderly homeowners, the thesis mainly emphasizes the British Columbia
situation. For example, it focusses upon financial problems of elderly
homeowners in B.C., resulting government programs and private
financial institution responses which exist in B.C., examples of
financial benefits from a dissavings program based on B.C. housing
price levels, and likely problems in implementation within B.C. The
intention of this geographical focus was not to narrowly limit the
findings of the thesis to one particular area. However, it was recognized that a dissavings plan cannot be examined in isolation—it must be related to demonstrated needs and a particular economic situation and institutional context. The provincial scale was chosen as the most suitable for study, and British Columbia as the province for which information would be most readily available.
CHAPTER 2: FINANCIAL PROBLEMS OF ELDERLY HOMEOWNERS

I. INTRODUCTION

People generally view the elderly as being financially badly off relative to other age groups, because they often have low incomes. Elderly homeowners are included in such a view. For instance, Daniels (1975, p. 6) points out that rising property taxes and high maintenance and utility costs in combination with reduced incomes and inflationary increases in the general cost of living often place elderly homeowners in a "precarious financial position".

However, other factors besides family income must be taken into account before passing judgement on the financial position of elderly homeowners. As well as examining the dollar incomes of senior citizens, this chapter will also examine the issue of imputed rental income from homeownership, expenditures by the elderly, and the assets, debt and net worth of the elderly in comparison to other age groups. It will be shown that elderly homeowners are not in a poor overall financial position, but that they do have financial worries. These problems—possession of a large illiquid asset and fear of inflation and uncertainty about the future—will be discussed in the latter sections of the chapter.

II. INCOME

The main factor in the economic life of elderly persons is that most of them are retired and thus experience significantly reduced incomes.
According to a 1975 Statistics Canada survey, families and unattached individuals in Canada with a head 65 years of age or over had the lowest average and the lowest median income of any age group, as shown in Table 4.1

Table IV: Average and Median Income of Families and Unattached Individuals by Age of Head, 1974, Canada

<table>
<thead>
<tr>
<th>Age of Family Unit Head</th>
<th>Average</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>7272</td>
<td>6480</td>
</tr>
<tr>
<td>25-34</td>
<td>12866</td>
<td>12272</td>
</tr>
<tr>
<td>35-44</td>
<td>15936</td>
<td>14564</td>
</tr>
<tr>
<td>45-54</td>
<td>16057</td>
<td>14501</td>
</tr>
<tr>
<td>55-64</td>
<td>12902</td>
<td>10877</td>
</tr>
<tr>
<td>65 and over</td>
<td>7267</td>
<td>4880</td>
</tr>
<tr>
<td>All age groups</td>
<td>12443</td>
<td>10993</td>
</tr>
</tbody>
</table>

(Statistics Canada, 1976b, Income Distribution by Size in Canada, 1974, p. 51)

It could be argued that these income figures paint a somewhat misleading picture since they do not take account of the smaller size of elderly families, and that the relative position of the elderly would be more favourable if per capita incomes were examined (Chen, 1967, p. 226). However, the same survey which produced the above figures also found that the incidence of low income among families and unattached

1 An "unattached individual" refers to a person living by himself or rooming in a household where he was not related to other household members.
individuals with a head 70 years of age and over was higher than for any other age group (see Table 5). The low income cutoffs used to delineate

Table V: Incidence of Low Income Among Families and Unattached Individuals by Age of Family Unit Head, 1974, Canada

<table>
<thead>
<tr>
<th>Age of Family Unit Head</th>
<th>Families</th>
<th>Unattached Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 years and under</td>
<td>15.5</td>
<td>38.2</td>
</tr>
<tr>
<td>25 - 34</td>
<td>10.0</td>
<td>15.0</td>
</tr>
<tr>
<td>35 - 44</td>
<td>9.0</td>
<td>15.0</td>
</tr>
<tr>
<td>45 - 54</td>
<td>8.6</td>
<td>24.2</td>
</tr>
<tr>
<td>55 - 64</td>
<td>11.9</td>
<td>42.9</td>
</tr>
<tr>
<td>65 - 69</td>
<td>14.4</td>
<td>50.8</td>
</tr>
<tr>
<td>70 years and over</td>
<td>23.3</td>
<td>65.3</td>
</tr>
</tbody>
</table>

(Statistics Canada, 1976b, Income Distributions by Size in Canada, 1974, p. 100)

low income family units were based on families who on average spent 62 per cent or more of their income on food, shelter and clothing, and the actual limits were differentiated by population of area of residence and by size of family unit (Statistics Canada, 1976b, pp. 17-18).²

The 1971 Canadian Census reports that in British Columbia in 1970, families and non-family persons with a head over 65 years of age had the lowest average income of any age group (see Table 6).³ The average

² "Family unit" is used to designate, collectively, unattached individuals and families with 2 or more members.

³ A Census "family" consists of a husband and wife (with or without children who have never been married, regardless of age), or a parent with one or more children never married, living in the same
### Table VI: Average Income of Families and Non-Family Persons by Age of Head, 1970, British Columbia

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>Families</th>
<th>Non-family Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>6821</td>
<td>2978</td>
</tr>
<tr>
<td>25 - 34</td>
<td>9414</td>
<td>5454</td>
</tr>
<tr>
<td>35 - 44</td>
<td>11002</td>
<td>5769</td>
</tr>
<tr>
<td>45 - 54</td>
<td>12103</td>
<td>5098</td>
</tr>
<tr>
<td>55 - 64</td>
<td>10712</td>
<td>4040</td>
</tr>
<tr>
<td>65 &amp; over</td>
<td>6754</td>
<td>2661</td>
</tr>
<tr>
<td>All groups</td>
<td>10019</td>
<td>3828</td>
</tr>
</tbody>
</table>


Income for a family with a head aged 65 or over was $6754 compared with an average income of $10,019 for all families. The average income for non-family persons aged 65 and over was $2661, while the average income for all non-family persons was $3828.

Based on a Statistics Canada systematic one per cent sample of 1971 Census families in B.C., 24.4 per cent of homeownership families with a head over 65 years of age had a 1970 income of less than $3000 compared with 7.1 per cent of all homeownership families (see Table 7). Over half of the elderly homeownership families had an income of less than $5000. Only 16.5 per cent of elderly homeownership families had an income of over $10,000, compared with 48.4 per cent of all homeownership families.

dwelling.

"Non-family persons" refers to those living alone; those living with unrelated individuals and those living with relatives but not in a husband-wife or parent-child relationship.
Table VII: Percentage Distribution of Home-owning Families by Income Group and Age of Family Head, B.C., 1971

<table>
<thead>
<tr>
<th>1970 Income Group</th>
<th>Age of Family Head</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under 25</td>
<td>25-34</td>
</tr>
<tr>
<td>Under $3000</td>
<td>4.5</td>
<td>3.7</td>
</tr>
<tr>
<td>$3000-$3999</td>
<td>0.0</td>
<td>2.3</td>
</tr>
<tr>
<td>$4000-$4999</td>
<td>3.0</td>
<td>1.6</td>
</tr>
<tr>
<td>$5000-$5999</td>
<td>9.1</td>
<td>2.8</td>
</tr>
<tr>
<td>$6000-$6999</td>
<td>9.1</td>
<td>6.9</td>
</tr>
<tr>
<td>$7000-$7999</td>
<td>15.2</td>
<td>7.7</td>
</tr>
<tr>
<td>$8000-$8999</td>
<td>21.2</td>
<td>13.9</td>
</tr>
<tr>
<td>$9000-$9999</td>
<td>7.6</td>
<td>10.9</td>
</tr>
<tr>
<td>$10,000 &amp; over</td>
<td>30.3</td>
<td>50.3</td>
</tr>
<tr>
<td>Total</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td>Sample Size</td>
<td>66</td>
<td>569</td>
</tr>
</tbody>
</table>


It should also be noted that Table 7 only presents the income of families. "Non-family" elderly homeowners, such as widows living alone in the family home, would be in an even poorer position, since the costs of homeownership (taxes, maintenance, insurance, etc.) would not be considerably less than for home-owning families, but the income out of which to pay these expenses would generally be less than for families.

Thus the above discussion indicates that elderly homeowners do have less income than other age groups out of which to pay the costs of homeownership as well as food, clothing and other desired expenditures.
III. IMPUTED RENT

Granting that elderly homeowners are poor in terms of actual dollar income, the issue of imputed rental income received from an owner-occupied house must be dealt with. The argument is that since homeowners do not have to sustain rent out of their cash income they are financially better off than renters with the same income.

However, Achtenburg, et al. (1975, p. 209) found, in analyzing a sample of Mincome applications from the Department of Human Resources, that the average monthly shelter costs of Mincome recipients aged 60 to 64 in B.C. in 1975 was $115 for owners and $119 for renters.

In a study involving a 5 per cent sample of all elderly persons in B.C. receiving the Old Age Security, the full Guaranteed Income Supplement, and the Mincome Supplement in 1975, Bairstow (1976, pp. 27-28) found that the average monthly shelter costs for low income elderly married homeowners was $172 compared with $125 for married renters. Low income elderly single homeowners paid an average of $115 for monthly shelter costs, while single renters paid an average of $94.

Elderly homeowners are likely consuming a higher level of housing services on average than elderly renters (because of greater floor space, yard, etc.) and are thus receiving a higher imputed rental income than the rental paid by elderly renters in apartments. Nevertheless, the fact remains that low income elderly homeowners are actually paying as much as or more than low income elderly renters for average monthly shelter costs, and thus have less monthly income remaining for other expenditures.
IV. EXPENDITURES

The financial position of any person (elderly or otherwise) must be judged on the basis of budget needs and net worth as well as on the basis of income.

It is sometimes argued that families headed by a person 65 and over tend to spend less than younger families, especially on items such as house furnishings and equipment, and automobile expenses, and thus do not require as much income as younger families (Chen, 1967, pp. 227-230).

It can be seen from Table 8 that urban Canadian families and unattached individuals with a head over 65 years of age do indeed have a significantly lower average level of total current consumption than do all urban Canadian families and unattached individuals - $4415.9 compared with $8190.7. However, taking into account family size, per capita total current consumption of families and unattached individuals with a head over 65 is not much lower than per capita total current consumption of all families and unattached individuals - $2523.3 compared with $2739.4. Furthermore, the pattern of expenditures varies between elderly families and the general population. Families and unattached individuals with a head over 65 years of age spent 48.4 per cent of their total expenditure on food, shelter and household operation, while all families and unattached individuals spent only 36.9 per cent of their total expenditure on these same basic items.\(^4\)

\(^4\) The differing percentage distribution of expenditures could be a function of age and/or income. In order to determine how much is income-related and how much is age-related, one would have to compare expenditure patterns for similar income groups at different age levels. These statistics are not available.
Table VIII: Patterns of Expenditure for Families and Unattached Individuals with Head Aged 65 Years and Over, and for All Families and Unattached Individuals, Eight Canadian Cities, 1972.

<table>
<thead>
<tr>
<th>Age of Head 65 Years and Over</th>
<th>All Families and Unattached Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Families in Sample</td>
<td>532</td>
</tr>
<tr>
<td>Average Family Size</td>
<td>1.75</td>
</tr>
<tr>
<td>Average Dollar Expenditure</td>
<td></td>
</tr>
<tr>
<td>(Percentage Distribution)</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>1153.6 (21.0)</td>
</tr>
<tr>
<td>Shelter</td>
<td>1247.4 (22.8)</td>
</tr>
<tr>
<td>Household operation</td>
<td>249.4 (4.6)</td>
</tr>
<tr>
<td>Furnishings &amp; equipment</td>
<td>197.2 (3.6)</td>
</tr>
<tr>
<td>Clothing</td>
<td>320.0 (5.8)</td>
</tr>
<tr>
<td>Personal care</td>
<td>120.9 (2.2)</td>
</tr>
<tr>
<td>Medical &amp; health care</td>
<td>186.0 (3.4)</td>
</tr>
<tr>
<td>Smoking &amp; Alcoholic Beverages</td>
<td>195.2 (3.6)</td>
</tr>
<tr>
<td>Travel &amp; Transportation</td>
<td>426.5 (7.8)</td>
</tr>
<tr>
<td>Recreation</td>
<td>165.0 (3.0)</td>
</tr>
<tr>
<td>Reading</td>
<td>40.6 (.7)</td>
</tr>
<tr>
<td>Education</td>
<td>7.4 (.1)</td>
</tr>
<tr>
<td>Miscellaneous Expense</td>
<td>106.7 (1.9)</td>
</tr>
<tr>
<td>Total Current Consumption</td>
<td>4415.9 (80.6)</td>
</tr>
<tr>
<td>Personal taxes</td>
<td>684.7 (12.5)</td>
</tr>
<tr>
<td>Security</td>
<td>132.3 (2.4)</td>
</tr>
<tr>
<td>Gifts and contributions</td>
<td>248.9 (4.5)</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>5481.7 (100.0)</td>
</tr>
</tbody>
</table>

(Statistics Canada, 1975c, Urban Family Expenditure, 1972, pp. 16-17)
Bairstow, in his study of expenditure patterns of the low income elderly in British Columbia, found that married elderly homeowners spent 35.4 per cent of their income on housing costs, while single elderly homeowners spent 47.3 per cent of their income on housing costs in 1975 (Bairstow, 1976, p. 39). Owners spent a significantly larger percentage of their income for shelter than renters, whether they were married or single (see Table 9).

Table IX: Percentage of Income Spent by Low Income Elderly on Various Expenditures by Tenure and Marital Status, B.C., 1975  

<table>
<thead>
<tr>
<th>Expenditure Item</th>
<th>Married Owners</th>
<th>Renters</th>
<th>Single Owners</th>
<th>Renters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>35.4</td>
<td>25.7</td>
<td>47.3</td>
<td>38.7</td>
</tr>
<tr>
<td>Food</td>
<td>28.8</td>
<td>27.4</td>
<td>34.1</td>
<td>32.1</td>
</tr>
<tr>
<td>Clothing</td>
<td>8.2</td>
<td>9.8</td>
<td>12.3</td>
<td>12.3</td>
</tr>
<tr>
<td>Utilities</td>
<td>8.6</td>
<td>4.9</td>
<td>15.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Medical</td>
<td>2.3</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Other</td>
<td>9.8</td>
<td>8.0</td>
<td>8.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>93.1</td>
<td>77.8</td>
<td>119.9</td>
<td>99.5</td>
</tr>
</tbody>
</table>

(Bairstow, 1976, p. 39)

As seen in Table 9, total expenditures for married homeowners added up to 93.1 per cent of their income, while total expenditures for single homeowners added up to 119.9 per cent of their income.

Thus, low income elderly single homeowners had to use some savings or

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5 Low-income elderly refers in this table to elderly persons receiving the Old Age Security, the full Guaranteed Income Supplement, and the Mincome Supplement.
obtain money from other sources in order to meet their expenditure needs and continue living in their house.

V. ASSETS, DEBT AND NET WORTH

The financial position of elderly families appears much brighter when one examines their assets, debt and net worth, as seen in Table 10.

Table X: Average and Median Total Assets, Total Debt and Net Worth for Families by Age of Family Head, Canada, 1970

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>24 years and under</th>
<th>25-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-64</th>
<th>65 and over</th>
<th>All Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>6935</td>
<td>17757</td>
<td>23501</td>
<td>25585</td>
<td>24849</td>
<td>22445</td>
<td>19454</td>
</tr>
<tr>
<td>Median</td>
<td>1162</td>
<td>15286</td>
<td>18420</td>
<td>18316</td>
<td>17621</td>
<td>17001</td>
<td>14024</td>
</tr>
<tr>
<td>Total Debt:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>4038</td>
<td>6250</td>
<td>5108</td>
<td>3184</td>
<td>1198</td>
<td>521</td>
<td>4065</td>
</tr>
<tr>
<td>Median</td>
<td>1685</td>
<td>3742</td>
<td>2618</td>
<td>979</td>
<td></td>
<td>-</td>
<td>1333</td>
</tr>
<tr>
<td>Net Worth:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>2897</td>
<td>11507</td>
<td>18393</td>
<td>22401</td>
<td>23651</td>
<td>21924</td>
<td>15389</td>
</tr>
<tr>
<td>Median</td>
<td>136</td>
<td>7845</td>
<td>11240</td>
<td>12307</td>
<td>12895</td>
<td>13136</td>
<td>8758</td>
</tr>
</tbody>
</table>

(Statistics Canada, 1974c, Survey of Consumer Finances, Vol.1, Selected Reports, 1970, pp. 52-54)

Total assets include liquid assets (cash on hand, bank and other deposits, and government and other bonds), non-liquid financial assets (publicly traded stocks and mutual fund shares, shares in investment clubs, investments in mortgages, loans to other persons), estimated market value of owner-occupied homes, vacation homes and automobiles, and equity (estimated market value less mortgage outstanding) in other real estate. Total assets do not include equity in business and professional interests or equities accumulated in life insurance and pension plans.
The average debt of Canadian families declines gradually as they move from the second youngest to the oldest age group. The median family with a head aged 65 years or over has no debt. Elderly families have the highest median net worth of any group - $13,136, compared with $8758 for all families.

The Statistics Canada Survey of Consumer Finances, 1970, found that equity in a home constitutes the major proportion of net worth for families with a head aged 65 or over (B.C. Central Credit Union, 1975, p. 90). In Canada in 1970, 78.1 per cent of non-farm families having a head aged 65 years or older were homeowners, the highest incidence of homeownership of any age group (see Table 11). Breaking down the 78.1 per cent, 69.8 per cent of non-farm families having a head aged 65 years

<table>
<thead>
<tr>
<th>Age of Head</th>
<th>Homeowners With Mortgage</th>
<th>Homeowners Without Mortgage</th>
<th>All Homeowners</th>
<th>Renters and Others</th>
<th>All Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25 years</td>
<td>8.8</td>
<td>4.8</td>
<td>13.6</td>
<td>86.3</td>
<td>100.0</td>
</tr>
<tr>
<td>25 - 34</td>
<td>33.0</td>
<td>9.8</td>
<td>42.8</td>
<td>57.2</td>
<td>100.0</td>
</tr>
<tr>
<td>35 - 44</td>
<td>49.6</td>
<td>21.7</td>
<td>71.3</td>
<td>28.7</td>
<td>100.0</td>
</tr>
<tr>
<td>45 - 54</td>
<td>39.9</td>
<td>37.4</td>
<td>77.3</td>
<td>22.8</td>
<td>100.0</td>
</tr>
<tr>
<td>55 - 64</td>
<td>24.7</td>
<td>50.6</td>
<td>75.3</td>
<td>24.7</td>
<td>100.0</td>
</tr>
<tr>
<td>65 and over</td>
<td>8.3</td>
<td>69.8</td>
<td>78.1</td>
<td>21.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>32.5</td>
<td>31.6</td>
<td>64.1</td>
<td>35.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

years or older owned a home mortgage free - by far the largest percentage of any age group - while only 8.3 per cent of elderly families owned a home with a mortgage. Since mortgage debt on homes is the largest component of total debt of families (Statistics Canada, 1974c, p. 47), this helps account for the fact that families with a head aged 65 or over have the lowest average debt of any age group.

Interestingly, the incidence of homeownership of elderly families does not vary as a function of income, as shown in Table 12. In fact

Table XII: Proportion of Elderly Non-farm Families and All Families Owning Homes, by Income Class, Canada, 1970

<table>
<thead>
<tr>
<th>Income Class</th>
<th>Age of Head 65 and Over</th>
<th>All Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $3000</td>
<td>79.0</td>
<td>59.7</td>
</tr>
<tr>
<td>$3000-$3999</td>
<td>78.7</td>
<td>57.5</td>
</tr>
<tr>
<td>$4000-$4999</td>
<td>73.6</td>
<td>56.3</td>
</tr>
<tr>
<td>$5000-$5999</td>
<td>75.3</td>
<td>55.0</td>
</tr>
<tr>
<td>$6000-$6999</td>
<td>(no info.)</td>
<td>60.6</td>
</tr>
<tr>
<td>$7000-$7999</td>
<td></td>
<td>58.4</td>
</tr>
<tr>
<td>$8000-$8999</td>
<td>75.3</td>
<td>63.7</td>
</tr>
<tr>
<td>$10,000-$14,999</td>
<td>80.7</td>
<td>70.0</td>
</tr>
<tr>
<td>$15,000 and over</td>
<td></td>
<td>79.9</td>
</tr>
<tr>
<td>Total</td>
<td>78.1</td>
<td>64.1</td>
</tr>
</tbody>
</table>


elderly homeowners with an income of under $3000 had a slightly higher incidence of homeownership in 1970 than all elderly families did - 79.0 per cent compared with 78.1 per cent.
VI. PROBLEMS WITH A LARGE ILLIQUID ASSET

From the preceding analysis it can be seen that the overall financial position of the elderly is not as bad as is generally thought. Although elderly homeowners are often "income poor", they are "asset rich" by virtue of owning their own house, usually mortgage free.

However, this demonstration of the favourable financial position of elderly homeowners may be misleading. Home equity constitutes the major proportion of the assets of elderly homeowners. The problem is that houses are an illiquid asset. If elderly homeowners cannot or will not convert their house into current income, the contribution of this asset to the economic welfare of the elderly will consist solely of the imputed rental income, which cannot be spent. For elderly homeowners whose current income and liquid assets are not enough to sustain their current or desired level of expenditures, this presents a dilemma. Presently, the only way to convert the accumulated savings embodied in home equity into spendable money is to sell or rent the house and move out. Selling or renting their house means that elderly persons no longer have an immediate financial problem, but they no longer have the same house either. As outlined in Chapter 1, there are many reasons why elderly homeowners may not wish to leave their house: economic security, emotional attachment to the house or neighbourhood, physical suitability of the house to their needs, or inertia and fear of change. Thus if some elderly people decide not to move from their house despite income problems, they live in relative poverty, or at least at a level which does not correspond to their actual net worth.
Other senior citizens may wish to stay in their house but be forced to sell it because of the financial burden and thus unwillingly face the difficult problems of adjustment to a new physical and human setting.

VII. INFLATION AND UNCERTAINTY ABOUT THE FUTURE

Besides the problem of low incomes in combination with possession of a large illiquid asset, elderly homeowners face the additional financial problem created by inflation in combination with uncertainty about how long they will live.

As shown in Table 13, inflation has been an ever-present factor, especially in the 1970's. A bundle of goods which would have cost $7.87 in Vancouver in 1961 cost $13.77 in 1975. For wage and salary earners, wages and salaries tend to rise along with the rate of inflation and leave their actual standard of living relatively unaffected.

Table XIII: Consumer Price Index, Vancouver, All Items, 1961-1975 (1971 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>78.7</td>
</tr>
<tr>
<td>1962</td>
<td>79.0</td>
</tr>
<tr>
<td>1963</td>
<td>80.2</td>
</tr>
<tr>
<td>1964</td>
<td>80.8</td>
</tr>
<tr>
<td>1965</td>
<td>82.3</td>
</tr>
<tr>
<td>1966</td>
<td>84.3</td>
</tr>
<tr>
<td>1967</td>
<td>87.4</td>
</tr>
<tr>
<td>1968</td>
<td>90.6</td>
</tr>
<tr>
<td>1969</td>
<td>93.7</td>
</tr>
<tr>
<td>1970</td>
<td>96.9</td>
</tr>
<tr>
<td>1971</td>
<td>100.0</td>
</tr>
<tr>
<td>1972</td>
<td>104.0</td>
</tr>
<tr>
<td>1973</td>
<td>111.0</td>
</tr>
<tr>
<td>1974</td>
<td>123.9</td>
</tr>
<tr>
<td>1975</td>
<td>137.7</td>
</tr>
</tbody>
</table>

However, for senior citizens living on pensions and other sources of fixed income, inflation is a real threat. Since their incomes cannot be used as a hedge against inflation, elderly homeowners tend to hesitate to sell their house because of the perceived economic security it provides. As shown in Table 14, the cost of new single family dwellings in metropolitan Vancouver has been rising even more rapidly than the overall consumer price index, shown in Table 13. The cost

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cost</th>
<th>Cost Index (1971 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>16622</td>
<td>60.7</td>
</tr>
<tr>
<td>1962</td>
<td>17010</td>
<td>62.1</td>
</tr>
<tr>
<td>1963</td>
<td>16139</td>
<td>58.9</td>
</tr>
<tr>
<td>1964</td>
<td>17007</td>
<td>62.1</td>
</tr>
<tr>
<td>1965</td>
<td>18326</td>
<td>66.9</td>
</tr>
<tr>
<td>1966</td>
<td>19554</td>
<td>71.4</td>
</tr>
<tr>
<td>1967</td>
<td>20687</td>
<td>75.5</td>
</tr>
<tr>
<td>1968</td>
<td>21949</td>
<td>80.1</td>
</tr>
<tr>
<td>1969</td>
<td>24063</td>
<td>87.9</td>
</tr>
<tr>
<td>1970</td>
<td>25591</td>
<td>93.4</td>
</tr>
<tr>
<td>1971</td>
<td>27389</td>
<td>100.0</td>
</tr>
<tr>
<td>1972</td>
<td>30474</td>
<td>111.3</td>
</tr>
<tr>
<td>1973</td>
<td>36067</td>
<td>131.7</td>
</tr>
<tr>
<td>1974</td>
<td>45766</td>
<td>167.1</td>
</tr>
<tr>
<td>1975</td>
<td>47790</td>
<td>174.5</td>
</tr>
</tbody>
</table>

(Central Mortgage and Housing Corporation, Canadian Housing Statistics, 1962-1976)

index for new houses can reasonably be used as a surrogate for the price index of the existing housing stock, since the price of existing
housing largely determines the price of new housing, not vice versa (Pennance, et al., 1976, pp. 33-41). Thus the expectation has arisen that homeownership is a good and safe investment. A sense of economic security is also derived from homeownership when senior citizens view the home equity as a source of reserve funds to protect them against an unexpected emergency entailing a large expense (Institute of Industrial Relations, 1970, p. 831; Daniels, 1975, p. 16).

When elderly homeowners sell their house they not only lose this hedge against inflation but they also generally become renters, paying rent out of the proceeds of the sale of their house. Since rents are inflating along with all other prices and since the elderly are uncertain over how long they will live, they are afraid that the money from the sale of their house might run out before they die, especially if they have to move into a personal care home or private hospital at some point due to failing health. Thus elderly homeowners tend to stay in their houses as long as possible.

However, this choice is not without its uncertainties. There is no guarantee that the housing market will continue to rise along with the general rate of inflation, since house prices are not simply a function of general inflation. For instance, demand for housing at the local level is influenced by such factors as the population size and composition, income levels and distribution, availability and cost of mortgage funds, and expectations about future economic conditions (Pennance et al., 1976, p. 48; Real Estate Board of Greater Vancouver, 1974, pp. A-2, A-3), and level of demand in turn influences housing
prices. If the bottom were to drop out of the economy, housing demand would drop drastically and housing prices would fall. It must be recognized that using a house as a hedge against inflation is only based on expectations by elderly homeowners that housing prices will continue to rise as they have in recent years. In actual fact, housing prices could conceivably fall while property taxes continue to rise. Homeownership is not without financial risk.

If elderly homeowners do not wish to give up homeownership because of its perceived economic security, they have basically three options: they can stay in their present house; they can sell their house and buy a smaller dwelling; or they can move into rental accommodation and rent their present dwelling. Each option involves certain trade-offs and costs and benefits. For instance, staying in their present house means that the elderly homeowners maintain their homeownership status but they may have more space than they desire, or they may be forced to forego desired current expenditures because of the low income-illiquid asset problem outlined above. If elderly homeowners sell their present house and buy a smaller, cheaper house in order to obtain more spendable money, they may find that high closing costs wipe out the financial gain. If elderly homeowners rent their present dwelling and move into smaller rental accommodation, their new housing may be more suited to their space needs, and the rent from their old house will rise along with the inflationary rent increases in their new housing. However, this option involves elderly homeowners in all the troubles associated with being a landlord, which may be more than they can physically or
emotionally handle.

Thus, the decision of whether or not to prolong homeownership on the grounds of financial security is not an uncomplicated one for elderly homeowners to make.

VIII. CONCLUSION

This chapter has analyzed the financial problems of elderly homeowners. The problem of low incomes in combination with possession of a large illiquid asset indicates the need for some form of financial arrangement which would convert home equity into an income cash flow while allowing elderly homeowners who so desired to stay in their house. A desirable solution would also take account of the problems of inflation and uncertainty about the future which are faced by elderly homeowners.
CHAPTER 3: CURRENT GOVERNMENT HOUSING PROGRAMS AND PRIVATE FINANCIAL INSTRUMENTS APPLYING TO THE FINANCIAL POSITION OF ELDERLY HOMEOWNERS IN BRITISH COLUMBIA

I. GOVERNMENT HOUSING PROGRAMS

A. Introduction

The first part of this chapter examines government housing programs applying to the elderly in British Columbia. A description of each program and where possible the rationale behind it is provided, accompanied by a critique which evaluates the program according to a number of criteria, listed below in Table 15.

Table XV: Criteria for Evaluating Government Housing Programs for the Elderly

<table>
<thead>
<tr>
<th>Area of Concern</th>
<th>Criteria for a Good Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Renters vs. Homeowners</td>
<td>Individual programs may benefit one group only, but overall, programs should not favour either elderly homeowners or elderly renters. Assistance should be available on a comparable basis to both groups (taking into consideration their overall financial position - see 4(a) below).</td>
</tr>
<tr>
<td>2. Low Income vs. High Income Households</td>
<td>Elderly low income households should receive the greatest benefits from a program. Elderly high income households should not receive government subsidy.</td>
</tr>
</tbody>
</table>

1 The government housing programs in this chapter are described and critiqued as they exist prior to the implementation of the Province's new Shelter Aid for Elderly Renters (SAFER) program, since all the ramifications of the new program are not yet known. However, SAFER will be described and critiqued at the end of the government housing policies section, with an attempt made to point out the significant changes it will make in the overall equity of the housing programs.
3. Need to Stay in Present Home vs. Need to Move

(a) Program should not subsidize senior citizens in their present type of accommodation without comparable subsidies being available for alternative types of accommodation – otherwise housing demand becomes distorted.

(b) Program should not force the elderly to move into certain specified accommodation in order to receive subsidy.

4. Effect on Assets and Income

(a) Program should consider assets as well as income in establishing eligibility. Low income/low assets elderly persons should be favoured over low income/high assets elderly persons in receiving subsidies.

(b) A program designed to appropriately meet the financial needs of elderly homeowners wishing to stay in their house should decrease their assets and significantly increase their incomes, without government subsidy (conclusion from Chapter 2).

5. Appropriateness of Means in Relation to the Problems Being Attacked

Program should tackle root problems directly instead of dealing with symptoms. For example, an income problem should be solved with an income support program, not a building program. Root problems should be accurately identified.

Thus an attempt is made to assess how equitable the programs are, and to determine whether any of the programs appropriately address the financial problem of elderly homeowners (as discussed in Chapters 1 and 2). Only federal and provincial programs which directly relate to some aspect of housing senior citizens are examined. These include government loans and grants for building senior citizens housing projects, shelter subsidies, and tax policies related to housing. Programs such as Mincome,
which do affect the housing demand of senior citizens by setting a minimum income level, but which are not specifically housing programs, will not be examined.

B. Housing Programs Directly Aimed at Elderly Homeowners

Department of Housing research staff are not aware of any official Provincial policy with respect to elderly homeowners. However, two provincial tax programs do directly affect elderly homeowners:

1. Provincial Home Owner Grant

Description: The Home Owner Grant is a property tax credit for resident homeowners in British Columbia. It started under the Provincial Home Owner Grant Act of 1957 at $28, and has grown incrementally with the growth of the property tax. As announced in the Provincial throne speech on January 13, 1977, persons over 65 who own and live in their own home in British Columbia will receive a grant of $150, in addition to the basic $280 Home Owner Grant available to all owner-occupiers. This represents a $50 increase over the previous year's additional grant for homeowners over 65. Prior to 1976, the Home Owner Grant was divided into the Home Owner Grant proper and the School Tax Removal and Resources Grant, with the amount of the latter varying according to the level of the individual homeowner's school taxes. However, the legislation has been consolidated so that the Home Owner Grant is now one lump sum grant, not divided into two components. Responsibility for this program rests with the Department of Municipal Affairs.
**Rationale:** Property taxes, applied against the assessed value of a house, go towards paying for local services such as education, road maintenance, etc. Many elderly homeowners object to paying property taxes on the basis that they have already contributed their fair share of the education tax during their working lifetimes, and that they do not now benefit directly from government expenditures on schools. Another objection raised by elderly homeowners is that increased property taxes in combination with low incomes are forcing them to sell their homes (Yudelman, 1974, pp. 58, 61). It is also argued that the elderly spend a larger proportion of their income for housing than other age groups and thus bear a special burden from a tax on housing (Chen, 1967, p. 225).

The Provincial Home Owner Grant is a politically popular program designed to lessen the political opposition of elderly homeowners by offering them tax privileges to answer the above objections. The program apparently does not purposely attempt to encourage elderly homeowners to stay longer in their housing by providing government subsidies. It appears that the extra grant to elderly homeowners was a program developed without defining its specific policy effects with respect to housing.

**Critique:**

- The Home Owner Grant is very inequitable in that it transfers tax burdens from homeowners to renters, since there is no comparable-sized grant given to renters.
- This program provides an across-the-board lump sum grant which bears
no relation to ability to pay. High income elderly households receive as large a subsidy as low income elderly households.

- The program distorts housing demand by subsidizing homeownership. It acts in the direction of keeping senior citizens in their homes longer than they might otherwise choose to stay, given their space requirements, and thus contributes to inefficient utilization of the housing stock.

- The program does not consider asset holdings of recipients - that is, the fact that they are asset-rich.

- According to criteria 5(b) established above in Table 15, the program is not well suited to the financial situation of elderly homeowners, since although it does slightly increase the income available for consumption expenditures by elderly homeowners, it does so through government subsidy, not through decreasing the elderly homeowner's asset position.

- The program does tackle the perceived problem of elderly homeowners - low incomes - directly by providing a tax rebate. However, Chapter 2 raised the issue that this perception of the financial problems of elderly homeowners does not adequately take into account their overall financial position.

2. Property Tax Deferment

Description: Under the Real Property Tax Deferment Act (Bill 16, 1974) any owner-occupier over 65 years of age in British Columbia may defer net property taxes payable to the municipality until the property is sold, transferred or left vacant for over 10 years. At such time the payment due is equal to the deferred taxes plus a compounded interest
of 8 per cent. Net taxes refers to the amount of taxes in excess of the provincial Home Owner Grant. The deferred taxes plus the annual interest are registered as a lien against the property. The deferral cannot be retroactive - that is, a homeowner must pay all property tax arrears before applying for the tax deferral.

There are only roughly 200 homeowners currently taking advantage of this scheme in all of British Columbia. Administrators of the program suspect that it is not more widely used because elderly people do not like the idea of having a charge against their property after having paid for many years in order to get clear title, nor do they like the idea of having to pay interest on the deferred taxes. Low participation rates by elderly homeowners in this program are also attributed to lack of publicity and promotional efforts - the program has a rather low profile.

Critique:
- This program is aimed only at homeowners, not renters. However, it is only slightly inequitable, since the only government subsidy to homeowners which it provides comes through the below market interest rate charged on deferred taxes. This inequity is not intrinsic to the program, and could be remedied simply by raising the interest rate.
- The program neither aids nor runs counter to the goal of income redistribution since it does not provide subsidies for low or high income households.
- The program does not distort housing demand since it does not subsidize homeownership. It allows elderly homeowners who really wish to
retain their homes to do so without introducing undesirable incentives into the tax system.

- The program is appropriate to the financial needs of elderly homeowners in that it represents a liquidation (albeit a slow liquidation) of the assets of homeowners, which provides them with more current disposable income, without government subsidies. However, the amount by which the program increases the disposable income of elderly homeowners is not very large compared to the total value of their assets, and thus would not support a radically increased expenditure level for elderly homeowners.

- The program accurately identifies the root financial problem of elderly homeowners - low incomes in combination with possession of a large illiquid asset. It does not deal with the other financial worry of elderly homeowners discussed in Chapter 2 - the issue concerning fear of inflation and uncertainty over how long they will live, and could indeed heighten their anxiety that their asset holdings will run out if property taxes continue to increase and if they live a long time.

C. Other Housing Programs Affecting the Elderly

1. Production Subsidies and Direct Government Building

By far the strongest emphasis in government senior citizens housing policy to date has been on the actual provision of alternative subsidized housing through the building of new units.

Description of Federal Programs: Central Mortgage and Housing Corporation (CMHC), the Crown Agency which administers the National Housing Act,
is the major agency in Canada through which funding for senior citizens low rental housing is financed. There are two major avenues of Federal Government financial assistance: public housing assistance, and non-profit assistance.

Public housing assistance is provided by means of an agreement between the Federal Government and a province, a municipality, or a public housing agency. Under Section 43 of the National Housing Act, CMHC can make long-term loans to provinces, municipalities, or their agencies, covering 90 per cent of the cost for construction or acquisition of housing projects. Under NHA Section 40, CMHC can arrange under a Federal-Provincial partnership agreement to build and operate jointly-owned public housing projects. The Federal Government contributes 75 per cent of the capital costs under this type of partnership arrangement (CMHC, 1975a, p. 42; 1975b, p. 12). Completed public housing projects (and public non-profit projects) in B.C. are managed by the British Columbia Housing Management Commission (BCHMC).

Under Section 15.1 of the National Housing Act, non-profit organizations formed exclusively for charitable purposes and those which are municipally owned may obtain CMHC loans to cover 100 per cent of the lending value for low-rental senior citizens housing. Provincially-owned non-profit organizations may obtain loans to cover 95 per cent of the lending value, with the borrower providing the other 5 per cent. Both categories of non-profit borrowers may apply to CMHC for a capital contribution of up to 10 per cent of the cost of the project. This contribution must be applied against the reduction of the loan.
As an alternative to the capital contribution, the borrowers may, where suitable, apply for subsidized land-leasing arrangements (CMHC, 1973). The loans to non-profit organizations are for terms up to 50 years and are at preferred interest rates.

CMHC does not impose stringent income limitations on tenants in non-profit projects catering to the elderly, on the grounds that "their housing choices in the market are extremely limited" (CMHC, 1973). Tenants may have an income of up to 4 times the full recovery rent of a non-profit unit.

Description of Provincial Programs: Under the Elderly Citizens Housing Aid Act, the B.C. Department of Housing "may grant aid to a regional district or municipality or non-profit corporation incorporated for the purpose of providing homes for elderly citizens, to assist in the construction or reconstruction of low-rental units for elderly citizens of low income" (quoted from the Act). Under this Act, the Provincial Government will give a grant of up to one-third of the capital costs of providing self-contained low-rental housing units, and up to 35 per cent of the capital costs of providing boarding-home low-rental housing units or special care units. Under a new government policy the Province, where suitable, is going to start giving a grant of Crown land in lieu of the one-third capital grant presently available. The land grant rather than the capital grant is expected to become the norm. In order to obtain the Provincial Government grant, the regional district, municipality or non-profit corporation used to be required to make a 10 per cent matching contribution on the case of self-contained or
boarding-home units, and a 15 per cent contribution in the case of special care units. However, this amount is now discounted against the 10 per cent capital contribution available under NHA Section 15.1 (Yudelman, 1974, p. 85).

Rents and boarding rates in these projects are negotiated by the sponsors and the Provincial Government. Rates for special care homes cannot exceed $300 per month per person.

Under the Elderly Citizens Housing Aid Act, the average fixed incomes (including income from assets) of tenants in a project cannot exceed 130 per cent of the current Mincome rate. Preference is given to persons whose income does not exceed the Mincome rate. Thus, the federal and provincial programs for assisting construction of non-profit housing work closely together but do not always coincide. The federal program (NHA Section 15.1) aids all non-profit senior citizen housing, while provincial aid under the Elderly Citizens Housing Aid Act is directed only to projects catering to low income persons.

Trends in Government Production Subsidies: In the past, there has been some construction of public housing for senior citizens under NHA Sections 40 and 43, but the province has seemed eager to remove itself from this area, feeling that the management of non-profit projects is more responsive to the people served than public housing would be (Yudelman, 1974, p. 85; Achtenburg et al., 1975, p. 144). CMHC has increasingly been favouring the Section 15.1 non-profit route for providing seniors housing units in B.C., since it is the most inexpensive from a federal treasury point of view because of the provincial grant to
non-profit organizations under the Elderly Citizens Housing Aid Act. Thus capital costs per unit are lower for the Federal Government using the non-profit route, which makes it possible for them to fund far more units than under the public housing assistance route. In the period 1946 to 1970, 68.4 per cent of the senior citizens dwelling units and hostel beds funded in B.C. by CMHC were funded under Section 15.1 of the National Housing Act, and 31.6 per cent were funded under NHA Section 40 (Yudelman, 1974, p. 80). CMHC's Handbook for Preparation of 1976-1978 Plan (1975c), an internal planning guide for the regional offices, shows all new seniors units being assigned to the non-profit program.

Rationale: Problems of senior citizens in finding suitable housing at a price they can afford have been viewed and attacked as a "housing problem" by federal and provincial governments. The main solution of governments has been to build, and to fund other agencies to build special housing projects for senior citizens.

The rationale for this production subsidies/construction approach can be found explicitly stated in government literature. For example, CMHC's Annual Report 1975 (1976, p. 12, 16) states that "the purpose of CMHC's Public Housing Program is to provide accommodation for those who are unable to obtain it at current market rents," and that "the objective of the Non-profit Program is to provide housing to senior citizens at a modest rent". The purpose of B.C. government non-profit assistance under the Elderly Citizens Housing Aid Act is "to assist in the construction or reconstruction of low-rental units for elderly citizens of low
income who are unable to purchase adequate accommodation according to their needs" (quoted directly from the Act). Thus the emphasis is on directly providing accommodation as a solution for financial problems.

At the federal level, there is a strong emphasis on the number of senior citizens' units provided. For example, the CMHC Regional Proposal Handbook for the Preparation of the 1975 Plan (1974, pp. 42-44), an internal planning guide for the regional offices, computes the number of senior citizens eligible for assistance (based on all elderly renters in the province). It then presents the number of units of housing for senior citizens which have been provided cumulatively to date through CMHC funding. To the end of 1974, approximately 17,500 such units had been provided in B.C., with approximately 11,500 of these in Vancouver. The handbook then estimates the percentage of the market satisfied for senior citizens by comparing number of units built with overall number of elderly renters. By the end of 1974 it was estimated for Vancouver that 50.4 per cent of the market for single units and 27.4 per cent of the market for family units had been satisfied (CMHC, 1974, p. 43). The implicit assumption in all the calculations is that the ideal would be to get this percentage as high as possible and that all senior citizens want to live in this type of accommodation. There has been little attempt to look at alternative approaches.

Critique:
- The production subsidy approach to senior citizen's housing is oriented mainly towards elderly renters (quite apart from financial eligibility criteria), in that one obviously cannot at the same time be
an owner-occupier and move into government-assisted rental housing.

- The production subsidies programs are generally oriented towards low income elderly households. Admittance to public housing projects is based on need - thus the public housing program is aimed primarily at low income - low assets senior citizens who are currently paying high rents. As discussed above, stringent income limitations are not imposed by CMHC in non-profit projects catering to the elderly. In order to receive the Provincial one-third capital grant, a non-profit sponsor has to ensure that the average fixed income from all sources of tenants in its project does not exceed 130 per cent of the current Mincome rate, but not all non-profit projects apply for this grant.

The production subsidy approach is inequitable in that there are only a limited number of units built by production subsidies, and not all senior citizens who apply can be admitted. Thus senior citizens who get into government-assisted housing are subsidized; senior citizens with the same income who do not get into government-assisted housing receive no subsidy.

- The production subsidy approach forces senior citizens to move into certain specified accommodation (government-funded senior citizens housing projects) in order to receive the benefits of the subsidy, although these senior citizens might prefer their current accommodation.

- Federally-funded public housing projects consider assets as well as income in determining who will be admitted to the projects. Low income-low assets households are favoured over low income-high assets households. Homeowners or people who have just sold their house have
very low priority for getting into senior citizens housing managed by the B.C. Housing Management Commission, and they are advised of this when they apply. Very few elderly homeowners do apply to get into public housing; they tend to self-select out. Provincialy-funded non-profit projects are required to consider income from assets as part of the income of applicants, but there are no assets limitations per se in these projects.

- The production subsidy approach has been a classic example of dealing with symptoms rather than underlying problems, wherein an income problem has been treated as a housing problem and attacked by building special housing units. The government, by trying to achieve a redistributional objective through indirect means, is affecting resource allocation in a way that is neither economically efficient nor socially desirable.²

In this time of high capital costs, it is also a faulty approach to attempt to provide low-rent senior citizens' housing through a building program, since there is no such thing as low-cost new units. Such an approach can only end up being tremendously expensive to governments since they are forced to provide substantial on-going rent subsidies in order to cater to low income elderly persons and at the same time keep the projects financially viable.

² It is not argued that no senior citizens housing units should be built, but only that they should not be built for the purpose of redistributing income. Some elderly persons wish to live in senior citizens housing for social reasons (security, companionship, recreational opportunities, etc.) and this demand should be satisfied.
2. Rent Supplements Tied to Government-Financed Housing

Description: Under Section 44 of the National Housing Act, CMHC and the Province share in meeting operating deficits of senior citizens' housing projects resulting from the leasing of units based on the income of the tenants.

Section 44(1)(a) applies to public housing built under the NHA Sections 40 and 43 and managed by the B.C. Housing Management Commission. This program, which has been in effect in B.C. since January 1975, replaced a program wherein the units were subsidized. Now the people living in the units are subsidized according to their income. The actual rents payable by tenants are not to exceed 25 per cent of their gross adjusted family income. Government pays the difference between one quarter of the total gross adjusted income of the resident and the full recovery rent of the unit. Total gross adjusted income is defined as pensions and other direct income plus "income from assets," wherein 7 per cent of the assets of the person beyond an exemption of $3000 is counted as income. The tenant must contribute a minimum of \( \frac{1}{2} \) of the current Mincome rate toward the rent even if his/her income is below the Mincome level.

The annual operating losses resulting from this program are cost-shared by CMHC and the Province, municipality or public housing agency on a 50-50 per cent basis on loan-assisted developments (under NHA Section 43) and on a 75-25 per cent basis under the partnership agreement. The Section 44(1)(a) agreement was extended in the Fall of 1976 to cover B.C. Housing Management Commission tenants placed in buildings.
constructed under the Assisted Rental Program (NHA Section 14.1).

Under Section 44(1)(b), the Federal Government may enter into an agreement with a province to share the costs of making some units in non-profit projects (built under NHA Section 15.1) and co-operative projects (built under NHA Section 34.18(1)(b)) available to low-income people at rents scaled to income. In B.C. a Federal-Provincial agreement under Section 44(1)(b) came into effect September 1, 1975.

With regard to senior citizen housing, the Section 44(1)(b) program applies only to self-contained units. There are no limits on the proportion of units in senior citizens housing projects which may be subsidized.

The formula for determining the amount of the rent supplement paid for individual tenants is the same under the Section 44(1)(b) agreement as under the Section 44(1)(a) agreement. Cost sharing between the Federal and Provincial Government is "on an equal basis after adjustments have been made to recognize capital contributions, contributions made towards amortization or operating costs, contributions by means of preferred interest rates on the capital cost financing or other direct financial assistance to the company" by either or both levels of government (Federal-Provincial Agreement, 1975, p. 2). That is, the intent is to equalize the net costs to the two levels of government.

Rationale: Until 1975, the rents charged for non-profit housing were normally those covering the full cost of the project and were not subject to the kind of direct rent subsidization available for public
housing. Production subsidies available under NHA Section 15.1 in combination with the provincial one-third capital grant were sufficient to hold costs down and keep rents within an affordable range for low income senior citizens.

In recent years, however, the rise in capital costs for new housing was so considerable that the viability of the non-profit program was in danger. Non-profit groups found they could no longer provide a low cost rental unit in today's high cost construction market, and even existing units came under pressure because of rising maintenance costs. As a result, the non-profit program was in danger of being unable to help low income people, and existing projects were in danger of going bankrupt (Yudelman, 1974, pp. 87-88; Achtenburg, et al., 1975, p. 144).

To save the program it became necessary to make shelter subsidies available to non-profit housing as well as public housing through Section 44 of the National Housing Act. Thus, as stated in the Federal-Provincial agreement, the Section 44(1)(b) program is designed to make contributions to non-profit companies (as defined in NHA Section 15.1) "for the purpose of assisting such companies to provide housing accommodation to individuals or families of low income at rentals that are less than the rentals required to meet the cost of amortizing and operating the housing project" (Federal-Provincial Agreement, 1975, p. 1).

B.C. Housing Management Commission's manual on the Rent Supplement Program (1976, p. 2) states that the "program will encourage the development of reasonably priced senior citizen housing and will bring additional housing to persons who need it most". It will "help to return non-profit
senior citizen housing within the financial range of the people it has been intended to accommodate".

Critique:
- The rent supplement program is oriented towards elderly renters, since benefits are only available in government-assisted rental housing.
- The program is oriented towards low income elderly persons. Tenants pay only 25 per cent of their adjusted income for rent; thus within the program the amount of government subsidy increases as income decreases.

However, the rent supplement program is inequitable in that it makes the proportion of income spent on housing by tenants of non-profit and public housing much lower than the proportion of income spent by those with similar incomes housed in the private market. Since the number of government-assisted units available is limited, not all low income senior citizens can receive the benefits of the program.
- The rent supplement program forces senior citizens to move into certain specified accommodation (government-funded senior citizen housing projects) in order to receive the benefits of the subsidy. This drastically limits senior citizens' freedom of choice as to where they can live if they are in financial need.
- The rent supplement program does consider assets in that 7 per cent of the assets of the elderly person beyond an exemption of $3000 is counted as income. Thus even if elderly ex-homeowners were admitted to government-assisted housing projects they would receive little, if any,
assistance under the rent supplement program, even if they had low incomes.

- The rent supplement program was introduced as a necessary adjunct to the production subsidy approach, stemming from the rising capital costs of such an approach. Thus the rent supplement program abets a faulty approach which deals with symptoms rather than underlying problems (see Critique of production subsidies approach, p. 47).

Summary: To summarize the description of production subsidies and rent supplements, Table 16 presents the various production subsidy programs, along with their source of capital, eligibility requirements for tenants, and eligibility for government rent supplements.
3. Renters Tax Credit

Description: "RentAid" is a tax credit program introduced in 1976 for citizens who rent accommodation in British Columbia. It is administered through the federal income tax system, but is a B.C. Government program, financed through the Department of Housing. This program replaced the B.C. Department of Housing Renters Resource Grant program under which elderly renters were entitled to a flat grant of $80 per year, with no income restriction.

To apply, an eligible renter must fill out a Federal Income Tax Return form (even if he/she has no taxable income) and also a Renters Tax Credit claim form included with the Federal Income Tax Return Form. For a renter over 65, the minimum benefit is $80, regardless of
Table XVI: Summary of Production Subsidy Programs for Senior Citizens Housing

<table>
<thead>
<tr>
<th>Program</th>
<th>Source of Capital</th>
<th>Eligibility Requirements for Tenants</th>
<th>Eligibility for Government Rent Supplements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Public Housing (Loan-Assisted)</td>
<td>Long-term loan for 90% of capital costs from CMHC under NHA Section 43 to province or municipality</td>
<td>Eligibility determined on a point system which considers many factors besides income. However, a maximum of 50 points out of a maximum total of 160 points are awarded on the basis of income (including income from assets - 7% per annum of value of assets beyond an exemption of $3000)</td>
<td>Eligible for rent supplements cost-shared by CMHC and province (50-50) under NHA Section 44(1)(a)</td>
</tr>
<tr>
<td>2. Public Housing (Federal-Provincial Partnership Agreement)</td>
<td>CMHC contributes 75% of capital costs under NHA Section 40</td>
<td>Same as for loan-assisted public housing</td>
<td>Eligible for rent supplements cost-shared by CMHC and Province (75-25) under NHA Section 44(1)(a)</td>
</tr>
<tr>
<td>3. Non-profit housing</td>
<td>Long-term loan for 100% of capital costs from CMHC under NHA Section 15.1 for charitable or municipal non-profit society. CMHC loan for 95% of capital costs to provincial non-profit society. 10% capital contribution by CMHC to charitable, municipal or provincial non-profit society.</td>
<td>Income from all sources including &quot;income from assets&quot; (computed at 7% per annum of the value of assets beyond an exemption of $3000) must not exceed 4 times the full recovery rent of a unit. Individual non-profit societies can set more stringent income and asset limitations on tenants as they choose.</td>
<td>Eligible for rent supplements cost-shared by CMHC and province (50-50) under NHA Section 44(1)(a)</td>
</tr>
<tr>
<td>4. Non-profit Housing (Low Income)</td>
<td>CMHC assistance under NHA Section 15.1 same as for general non-profit housing. In addition, a 1/3 capital cost or Crown land grant from the Provincial Government under the Elderly Citizens Housing Aid Act to regional district, municipality, or charitable non-profit society.</td>
<td>Average fixed incomes (including income from assets) of tenants in a project cannot exceed 130% of current Mincome rate. Preference given to persons whose income does not exceed Mincome rate.</td>
<td>Eligible for rent supplements cost-shared by CMHC and province (50-50) under NHA Section 44(1)(b)</td>
</tr>
</tbody>
</table>
the amount of his or her taxable income. No benefit can exceed 10 per cent of the total rent paid, and the maximum benefit is $100, less one per cent of taxable income. Residents of non-profit or government senior citizens housing as well as residents of nursing homes, private hospitals, rest homes, extended care hospitals or similar institutions can make a claim for RentAid based on the amount of rent they paid.

**Rationale:** The stated purpose of RentAid is "to help offset high rents, especially for senior citizens and those with low or moderate incomes," by relating tax credit benefits to income levels (Department of Housing, RentAid pamphlet). The program replaced the former Renters Resource Grant program in order to simplify administration, to eliminate the possibility of duplicate applications, and to tie the benefits somewhat to income.

**Critique:**
- RentAid benefits only renters, but is not large enough in size to counterbalance the Home Owner Grant which benefits only homeowners. The maximum benefit under RentAid is $100, compared with the Home Owner Grant of $430 to elderly homeowners.
- RentAid is preferable to the Renters Resource Grant program which it replaced, because the benefits are related to income levels. However, the benefits for elderly renters do not drop below $80 regardless of how large their income might be, while the maximum benefit
for elderly renters with no taxable income is $100. A maximum
difference of $20 per year between rich and poor does not represent a
program which is significantly graduated according to income. The
$80 minimum credit means that some persons not in need will receive
the credit simply because they are elderly.
- The program does not force people to move in order to obtain the
benefits - all elderly renters are eligible.
- The program is inequitable in not considering asset holdings as
well as income. A low income-high assets elderly renter receives the
same benefits as a low income-low assets elderly renter.
- The program tackles the problem of low incomes in combination with
high rents directly by providing a tax credit. However, low income
elderly renters must be able to cover their costs during the year
before receiving the income tax rebate.

4. Shelter Aid for Elderly Renters (SAFER)

Description: SAFER is the new shelter allowance program for elderly
renters in B.C., announced by the Provincial Government in the throne
speech of January 13, 1977 and introduced as legislation on March 9,
1977. The detailed regulations governing the program have not yet
been released. The new program will become effective July 1, 1977 and
will end the benefits available to elderly renters under the Renters
Tax Credit Program.

The program will provide direct cash assistance to elderly tenants
spending more than 30 per cent of their income on rent by subsidizing
the full difference between an elderly person's rent level and 30 per cent of her income, subject to certain limitations. The maximum monthly subsidy will be $70 for single elderly renters and $50 for couples. It is anticipated that the average assistance per claimant will be $35 per month for singles and $11 per month for couples. Couples will receive less subsidy than singles because their combined income usually makes it easier to meet rental needs.

The program also carries with it a rent limit of $200 per month for elderly couples and $175 per month for singles. People paying more than this limit will still be eligible for assistance, but the amount of the subsidy will only be calculated on the basis of the maximum allowable rent. Senior citizens living in room and board or care facilities will qualify for SAFER, but only with respect to the portion of their total monthly charges which relates to the room.

Rationale: The impetus for this program did not originate at the political level, but rather within the Ministry of Housing. There were several reasons for developing the program:

1) An awareness of the high cost of building senior citizens housing units. The Department of Housing staff realized that they could never meet all the housing needs of elderly renters using the production subsidy approach - there are simply not enough funds available.

2) An awareness that building new senior citizens units is not
the best utilization of scarce resources. Heavily subsidizing non-profit societies to build senior citizens housing results in putting people with the least ability to pay into expensive new units.

3) An attempt to bring subsidies for elderly renters more closely in line with the Home Owner Grant for elderly homeowners.

4) An attempt to redirect the renters tax credit funds to those who need it most by tying benefits more closely to income.

5) Indications from elderly renters that many of them would rather stay in their present rental accommodation than move to a senior citizens housing project, but require some extra money to do so. Over 75 per cent of the senior citizens on the waiting list for projects managed by B.C. Housing Management Commission list "high rent of present accommodation" as the reason for their application. Thus the main reason for applications is a "push factor" out of their present accommodation rather than a "pull factor" of the attractiveness of senior citizens housing projects per se. Achtenburg, et al. (1975, p. 1) recommended that "shelter assistance be made available to those who need it, independent of production subsidies". The GVRD Board also supported a rent supplement program which would give low income senior citizens the opportunity to remain in their present rental accommodation.
Critique:

- The new shelter allowance program moves significantly in the direction of placing subsidies to elderly renters in line with subsidies to elderly homeowners. The maximum yearly benefit for a single elderly renter will be $840 and for an elderly couple will be $600, compared with $430 for elderly homeowners.

- Benefits from the new program are graduated according to income and rent level. The program's aim is to reduce the portion of income spent on rent to an acceptable level. If an elderly person or elderly couple are spending less than 30 per cent of their income on rent, they will receive no subsidy.

- The program does not force elderly renters to move from their present accommodation into special housing units in order to obtain a rent supplement - a great step forward in housing policy for elderly citizens.

Introduction of this program will drastically reduce the number of government-funded self-contained senior citizens' housing units being built. The amount of funds allotted by the Province under the Elderly Citizens Housing Aid Act is expected to decline sharply. CMHC expects to switch its emphasis from building self-contained senior citizens' units to building hostel and special care beds. The building which does occur is expected to be concentrated in smaller communities where there is often no alternative rental accommodation. Thus the role of production subsidies in housing the independent elderly will decline.
- The program indirectly considers assets as well as income in determining benefits in that income from assets must be reported as income. However, applicants will not have to undergo any formal means test.
- The program tackles the problem of low incomes in combination with high rents directly by giving direct financial assistance to eligible elderly renters, paid in the form of a monthly cheque.

II. PRIVATE FINANCIAL INSTRUMENTS

The second part of this chapter examines existing private financial instruments applying to financial problems of elderly homeowners in British Columbia.

Existing methods of dissaving such as obtaining a personal loan or remortgaging one's house are generally unsatisfactory for those elderly homeowners who wish to continue living in their house. Most lending institutions are reluctant to deal with elderly people because of their low incomes and relatively short life expectancy (Ashley, 1958, p. 13). Low incomes reduce the elderly's ability to repay loans. Short life expectancy also greatly increases risks to the lender, since the life insurance which financial institutions carry on loans usually only covers persons up to 65 or 70 years of age. Thus if an elderly person with a loan outstanding should die (which is a greater possibility than with a younger person), the financial institution would have to get involved in a claim against the estate (Interview, D. Knight).

Thus loans are fairly difficult for elderly homeowners to obtain and any loans they do obtain will reflect the concern of lending
institutions to minimize their risks. The loans will only cover a part of their equity, since lenders most willingly provide small, fully-secured loans to elderly people (Interview, D. Knight). More importantly, the term of the loans will be shorter than the borrowers' expected remaining life with the result that elderly homeowners are in effect obliged to buy back their equity during their lifetime (Guttentag, 1975, p. 9). Lenders most willingly provide short-term loans, such as six month loans, with the first payment due one month from the disbursement date of the funds (Interview, D. Knight). Such loans do not address the desire of elderly homeowners to improve their cash flow position on an on-going basis in order to sustain a higher expenditure level. Conventional loans increase the amount of cash available for consumption in the present, but at the cost of decreasing income available for consumption in the following months.

Refinancing their house is another possibility for elderly homeowners. However, existing conventional modes of financing homeownership would for the most part preclude elderly persons from obtaining a mortgage loan, since they would be subject to the same income requirements applied to other age groups because financial institutions are concerned with problems of default and foreclosure (Interview, T. Cully; Chen, 1973, p. 7; Institute of Industrial Relations, 1970, p. 828). As with other types of loans, the ordinary mortgage loan requires that a borrower begin repaying his loan immediately in monthly installments, thus imposing a drain on his current income.
Since a mortgage loan must be repaid in monthly installments with interest, Chen remarks (1974, p. 4) that it takes a financial wizard to come out ahead in terms of monthly cash flow through refinancing. This is obviously not a category into which most elderly homeowners fall. The majority of elderly homeowners know little about complicated finances, and do not want to be burdened with monthly mortgage payments (Interview, T. Cully). In addition, the overhead costs of remortgaging a house are high, which is another disincentive to elderly homeowners to refinance their homes (Interview, D. Knight).

Given the presumption of repayment, the prevailing and well-justified view of financial institutions is that a wise homeowner should have paid off his mortgage debt and all other debts by the time he retires (Guttentag, 1975, p. 5). Thus at present, elderly homeowners with an income problem and no substantial assets to liquidate other than their home are generally advised by financial institutions to sell their house and move into smaller quarters. The money from the sale of the house, invested wisely, will then provide the elderly person with increased income, allowing an increased level of current expenditures as well as paying for the rent in the new accommodation (Interview, T. Ripley). This swing to liquidity is perceived by financial institutions to be the soundest financial advice, since it helps the elderly homeowner make more money, but it ignores the traumatic social and psychological effects on the elderly people persuaded to leave their home and change their lifestyle (Interview, D. Knight; Interview, K. Sheufelt).
Thus, existing financial instruments do not permit elderly homeowners to consume the equity in their houses while continuing to live there.
CHAPTER 4: HOME EQUITY DISSAVINGS PLANS
FOR ELDERLY HOMEOWNERS

I. INTRODUCTION TO THE DISSAVINGS CONCEPT

Thus far in the thesis it has been shown that elderly homeowners wishing to remain in their house often have financial problems due to their low income - large illiquid asset position, and that existing government housing policies and private financial instruments do little to help elderly homeowners with their dilemma.

The assets of the elderly, including their houses, represent the culmination of a savings process prior to old age. In addition to the desire to add to an estate, people save in order to provide for future consumption and to furnish a cushion against decreased income. It thus seems sensible that savings, in whatever form they exist, be drawn upon when income declines due to retirement. Dissaving in old age is a rational process: when young people build up their home equity they mortgage their future income to acquire the asset, and when elderly people use up their home equity they mortgage their asset to acquire a steady income (Chen, 1970, pp. 13-14).

The purpose of this chapter is to outline and analyze various financial instruments which could resolve the dilemma of many elderly homeowners by enabling them to consume their lifetime savings embodied in their house. A basic explanation is given of three main possible dissavings options. The advantages of these plans are then noted. The remainder of the chapter deals with possible barriers to implementing a dissavings scheme by addressing difficulties perceived by potential
users (elderly homeowners), potential facilitators of the service (government policy-makers and planners) and potential suppliers of the service (financial institutions). Lastly, numerical examples of what the financial payments to elderly homeowners would be under three sub-options are worked out.

II. ALTERNATIVE TYPES OF DISSAVINGS PLANS

A. Split Equity Housing Annuity Plan

Under a split equity arrangement the equity in a property is divided into two parts: a life estate or right of occupancy until death by a specific party, and the reversionary interest held by the investor. The investor acquires full equity in the property upon the death of the seller. A split equity arrangement could be combined with a life annuity purchase in the following way, allowing for gradual dissaving from home equity by elderly homeowners.¹

The elderly homeowner, assured of lifetime tenure in the house, gives the investor a deed conveying title to the investor at the death of the owner or his spouse, if later. The conveyance of a deed would be necessary in order to prevent the owner from selling the house without clearance by the investor (Chen, 1970, p. 12). Once the

¹ A life annuity consists of a set of periodic payments usually equal in size, made over a period of years at equal intervals of time, with each payment being contingent upon the survival of a designated life (Hummel and Seebeck, 1971, p. 194). The amount of the payments is based on the purchase price of the annuity (present value of the annuity) plus the life expectancy of the annuitant, as calculated from mortality tables. Under present institutional arrangements an annuity must be paid for in advance, thus an elderly homeowner with few other assets must sell his home in order to purchase an annuity with cash.
split equity contract is entered into, the elderly homeowner receives a guaranteed monthly annuity income for life. Married couples could purchase either a single or joint-survivorship annuity. The amount of the annuity would be based on a number of economic and actuarial considerations such as the rate of interest, estimated rate of appreciation of property value, appraised property value, net equity in the property, and the homeowner's sex, age and marital status (Institute of Industrial Relations, 1970. pp. 828, 832). Any outstanding mortgage on the house would be deducted from the appraised property value and the annuity computed on the net equity value.

Provision would be made in the split equity contract for elderly homeowners who wanted to change their residence after entering into the contract. When he wished to move out, a homeowner could either convey title to the investor or to a third party. If he sold to a third party, with the investor clearing the title, he would pay back to the investor the sum of total annuity payments to date plus interest. On the other hand, if he conveyed title to the investor, the elderly person would continue to receive annuity payments after moving out. The amount of the payments would be increased, since the investor would receive clear title to the house sooner than if the elderly homeowner had stayed there until death. The amount of the increase would be based on the interest on the appraised property value for a period equal to the homeowner's attained age life expectancy (Chen, 1970, p. 12).

There are two basic types of split equity contracts: the fixed
annuity contract and the variable annuity contract.

1. Fixed Annuity Contracts

A fixed annuity contract would pay a fixed gross annuity to the seller (that is, the elderly homeowner). There is a risk to the seller under this type of contract that the real value of the annuity could be eroded through inflation. However the seller would at least be assured that the property would continue to provide the same real services as before, and the annuity would increase his real income beyond what it would have been if he had retained ownership (Guttentag, 1975, p. 16).

Another question regarding fixed annuity contracts is whether the buyer (that is, the investor) would use the same assumption of price appreciation in all contracts. Use of a uniform assumed rate would result in "adverse selection," meaning that homeowners with the poorest prospect of appreciation would take out contracts. To protect himself the buyer would either have to assume different rates of price appreciation, meaning he would have to be able to forecast price changes, or else would have to establish various property eligibility requirements.

The only adjustment in a fixed annuity would occur if the seller were to make additions and alterations on the property. Improvements would be made at the elderly person's expense, then the property would be reappraised after the improvement and the annuity adjusted for any change in value (Guttentag, 1975, p. 16).

This type of contract involves a risk to both buyer and seller, in that the actual rate of property value appreciation is not likely to be the same as the assumed rate of appreciation used to calculate the
annuity when the contract was entered into.

2. Variable Annuity Contracts

Under a variable annuity contract the gross annuity would be adjusted periodically based on actual changes in property value. Thus, a renegotiation clause would work to raise the annuity income over time as property value appreciated. The main problem of variable annuity contracts arises from the need for periodic reappraisals of the property. Appraising necessarily involves a considerable element of subjective judgement, and if the appraiser has an interest in either a low or high value, the appraisal may be biased (Guttentag, 1975, p. 17). Under this plan there would need to be a mechanism for assuring equity to both buyer and seller by guaranteeing the integrity of the appraisal process. Since the average elderly homeowner is likely not interested in a cumbersome and controversial process of renegotiation, another possibility would be to tie the annuity amount to the cost of living index (Chen, 1974, p. 7).

B. Nonrepayable Loan

The nonrepayable loan is simply a loan secured by a residential mortgage repayable only upon the death of the borrower or on the prior sale of the property. Under a nonrepayable loan (unlike under a split equity plan) the elderly homeowner retains a residual equity in the house. This is a more straightforward concept than the split equity plan and thus may be easier for elderly homeowners to grasp.
A nonrepayable loan may be paid in three ways: as a lifetime annuity, as a term annuity, or as a lump sum payment.

1. Lifetime Annuities

Nonrepayable loans may be paid to elderly homeowners as a lifetime annuity. The maximum amount of the annuity would be smaller than under a split equity plan. This is because in the case of split equity annuities a low return to investors from homeowners dying late is offset by a high return from those dying early. In the case of nonrepayable loans, there is no such offsetting benefit because homeowners dying late may cause loss to the investor whereas those dying early pay only the amount of the loan plus the contract interest rate, while the residual equity in their homes belongs to their estate (Guttentag, 1975, pp. 11, 30-31).

In calculating the annuities that can be paid under nonrepayable loans, the central concept is the net yield to the lender, defined as contract interest rate less the expected loss rate. "The net yield is the internal rate of return calculated on the net flows to the lender over the total life of a cohort of borrowers having a specified mortality distribution" (Guttentag, 1975, p. 34). A given net yield to the lender can be obtained through varying combinations of loan interest rate and annuity amount. The logic of this is that a larger annuity generates larger losses because there would be more cases in which debt would come to exceed property value but these losses are just offset by the higher interest rate. Thus, a large annuity-high
interest rate combination benefits homeowners who die late at the expense of those who die early, relative to a small annuity-low rate combination.

2. Term Annuities

Some elderly homeowners may wish to supplement their incomes for a specified period such as five, ten or twenty years rather than receiving a lifetime annuity. Other homeowners may wish a larger payment than a lifetime annuity can provide and may be prepared to gamble that appreciation in the value of their property will allow an extension of the annuity when the term expires (Guttentag, 1975, p. 40). The availability of term annuities of varying durations would substantially widen the range of household choice.

The same analytical procedure is used to calculate net yields to the lender on term annuities as on lifetime annuities except that at the end of the specified term further indebtedness growth reflects only the growth of interest on the balance. At a given net yield the size of annuity payments would be larger for a term annuity than for lifetime annuity. The difference becomes more substantial the shorter the term is.

3. Lump Sum Payments

Some elderly homeowners would prefer to exploit their borrowing power to the fullest immediately by taking a single payment loan. This form of nonrepayable loan would be attractive to homeowners having some
mortgage debt on their house, because they could use the lump sum loan to replace a debt that constitutes a drain on their current income with one that does not (Guttentag, 1975, p. 41).

The same analytical procedure is used to calculate net yield to the lender on lump sum payments as on annuities, the only difference being that indebtedness starts at a high level and increases at a slower rate.

4. Combining the Options

In order to maximize the attractiveness of the program to elderly homeowners it would be desirable to offer all three of the above options: lifetime annuities, term annuities and lump sum loans. Within each option, homeowners should be able to choose the interest rate-amount combination they prefer, with all combinations set to provide the same net yield to the lender.

Special "combination" contracts could be designed to meet the specific needs of households. For example, a contract might provide for a five year term annuity to meet some recurring expense, followed by a period when no annuity was paid, with a lifetime annuity beginning in a later year.

Dealing With Moveouts: If a homeowner sells his property before death and repays his loan, he will raise the lender's net yield by reducing the loss rate, since the effect is the same as an unexpected rise in mortality. The cash value of any specified moveout is that amount which,
when paid out will result in the net yield that was originally calculated. However, the lender cannot pay out this cash value as a lump sum cash payment to the elderly homeowner who is moving out, since this practice would affect moveout decisions in that it would be profitable to move out in anticipation of death (Guttentag, 1975, p. 43).

One solution would be for the lender not to pay anything to people moving out, but rather to adjust the mortality tables used to take anticipated moveouts into account. Another solution would be for the lender to give people moving out the annuity purchaseable with the amount of the cash value of the moveout. This would reduce the incentive to move out shortly before death. It also has the advantage that elderly homeowners would continue to receive some annuity payment even after they sold their house.

C. Sales-Leaseback Agreement

This dissavings alternative is the most straightforward conceptually, and also involves the least complex calculations. Under this alternative, the elderly homeowner sells his house outright to the investor, then continues to live in the house as a tenant. One of the formal conditions of sale is that the buyer will enter into a lease agreement with the seller. The terms of the lease, including the length of the lease, options for renewal, amount of rent, provisions for renegotiation of rent, maintenance responsibilities, etc., are negotiated between the seller and the buyer and written into the sales
contract.

Payment under this option could work in two main ways. Firstly the buyer could pay the elderly homeowner cash for the market value of the house to the buyer when he sells it, discounted to the present, after which the elderly person would begin making monthly rental payments to the new owner. Secondly, the buyer could pay the elderly homeowner the market value of the house when he sells it, discounted to the present, minus the discounted rent stream to cover the term of the lease, in which case the elderly person would continue to live in the house making no further payments to the new owner. That is, the rent would be "prepaid" for the entire term of the lease.

D. Summary

For purposes of clarification and comparison, Table 17 summarizes the implications of each alternative type of dissaving plan, in terms of stream of benefits to the elderly homeowner, equity position of the homeowner, stream of costs to the investor and equity position of the investor over time.

III. ADVANTAGES OF THE DISSAVINGS PLANS

All of the above options would be completely voluntary, in accord with the principle of freedom of consumer choice. Each option would widen the range of financial choices available to elderly homeowners when their income from conventional sources becomes low or inadequate by providing a new method of dissaving, and would at the same
**Table XVII: Summary Description of Dissevers Plan Options**

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Split Equity Amn</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Amnity</strong></td>
<td>Homeowner receives fixed monthly annuity payments for the duration of her life.</td>
</tr>
<tr>
<td><strong>Variable Amnity</strong></td>
<td>Homeowner receives variable monthly annuity payments for the duration of her life.</td>
</tr>
<tr>
<td><strong>Monthly Rent</strong></td>
<td>Upon entering the agreement, homeowner acquires full equity in the house.</td>
</tr>
<tr>
<td><strong>Prepaid Rent (Term Certain)</strong></td>
<td>Homeowner receives one lump sum payment for a designated period of time.</td>
</tr>
</tbody>
</table>
time widen their available housing choices by enabling them to more easily stay in their house.

Any of these dissavings plans could address the financial problems of elderly homeowners which were discussed in Chapter 2. The plans could provide a substantial supplement to current income by converting home equity into cash. The extra income could be used to defray the rising costs of homeownership, to enjoy a higher level of consumption, or to pass on to children in the form of gifts (Daniels, 1975, p. 7). The options which incorporate a lifetime annuity also protect elderly homeowners from the financial worry of exhausting their funds by living too long, through providing guaranteed monthly payments for life.

In all the options the homeowner can be assured of the right of occupancy of their house for as long as they wish. This would remove
the painful adjustment problems which often arise when elderly homeowners are forced by financial considerations to sell their house outright for cash and move somewhere else (Institute of Industrial Relations, 1970, p. 829). If steps are taken to ensure a fair appraisal of the house, these plans would also prevent the difficulties which often surround a sale transaction by elderly homeowners. At present, because their bargaining position is weak for various reasons, their house may fetch a price below its current market value (Chen, 1973, p. 9).

The above plans cater only to elderly homeowners and do not widen the options open to elderly renters who may be financially worse off. Thus it has been charged that these plans would widen the disparity between owners and renters and work against measures to bring about horizontal equity (Chen, 1974, p. 4). However, the beauty of all these plans is that they improve the economic status of elderly homeowners while requiring no or minimal transfer payments. Thus elderly renters and non-elderly owners and renters would not be subsidizing elderly homeowners in order to finance the scheme. In effect, the above plans would enable elderly homeowners to help themselves by allowing them to make use of their own assets, without significant cost to taxpayers. Even if there is a cost in creating the required institutional structure or an opportunity cost in the provision of loanable funds by the government, it would be a small fraction of the benefit accruing to those who take advantage of the plan (Guttentag, 1975, p. 8). Any of the above plans could actually reduce the dependency
of elderly homeowners on public transfer payments, since in the absence of any such programs elderly homeowners in B.C. presently receive the sizeable Home Owner Grant because of their generally inadequate current income status (Institute of Industrial Relations, 1970, p. 829).

IV. EXPERIENCE OF OTHER COUNTRIES

Although the concept of a dissavings plan which enables elderly homeowners to remain in their house has not yet caught on in North America, variations of a housing annuity plan are found in several European countries (Daniels, 1975, p. 1). For example, such a plan has been in operation in France for over 100 years. Elderly French homeowners experiencing financial difficulties have been able to negotiate a "rentes viageres", a type of split equity transaction between two individuals arranged through a notaire (notary public). A sells his home to B for current value, the price is divided by A's life expectancy as calculated by the notaire from actuarial tables, and the resulting amount is paid by B to A every year until A dies. At that point payment ceases and B takes possession of the house (Guttentag, 1975, pp. 6-7).

The French split equity arrangement has two serious weaknesses. Firstly, since the arrangement is not institutionalized but rather exists on a very personal one-to-one basis between buyer and seller, there is no mortality risk-sharing on the part of buyers. Thus buyers take a sizeable gamble. Secondly, in the absence of an effective
secondary market, the buyer must contemplate living in the same community indefinitely. As societal mobility has risen in recent decades, a split equity has become a less attractive investment for an individual, and consequently the "rentes viagères" has declined in popularity (Chen, 1974, p. 2; Guttentag, 1975, pp. 7, 19). Both problems could be overcome, however, through institutionalizing the scheme.

V. REACTIONS BY SENIOR CITIZENS TO DISSAVINGS PLANS - PREVIOUS FINDINGS

In examining the feasibility of implementing a dissavings plan which would enable elderly homeowners to remain in their houses, it is important to estimate the demand for such a plan. This thesis does not directly, through survey research, investigate the willingness of elderly homeowners to participate in a dissavings plan. However, two U.S. surveys which attempted to determine the degree of interest by elderly homeowners in a split equity type housing annuity program will be examined.

In one survey, conducted in Los Angeles County in 1970, 455 homeowners between 55 and 75 years of age were interviewed regarding their feelings toward a split equity annuity plan. Only 9.0 per cent of the respondents indicated that they were "very" or "somewhat" interested in such a plan, while 4.2 per cent of the respondents were indifferent and 86.8 per cent were disinterested (Chen, 1973, p. 14). The fact that only a small minority of the sample was receptive may seem disappointing. However, there were a number of explanatory factors
which make the responses more encouraging. For example, the sample respondents were financially better off than a national cross-section of the U.S. elderly population in terms of income, assets, net worth, house value and incidence of poverty. In addition, 60 per cent of the sample indicated that their retirement income was or would be enough. Individuals with sufficient financial resources were not expected to be interested in a dissavings plan involving their home equity (Chen, 1973, pp. 17, 19-20, 40). Statistical tests of the survey data found "with mortgage" and "inadequate income" to be the two most significant characteristics which were correlated with expression of interest in a split equity housing annuity scheme. This suggests that more people might be expected to show interest if the sample consisted of low income elderly homeowners. It was also found that a significantly higher percentage of respondents under age 65 than those aged 65 or over were interested in such a scheme. This suggests a more innovative spirit among younger homeowners in planning for retirement (Daniels, 1975, p. 70).

In another survey, conducted in Tompkins County, New York in 1974, a sample of homeowners aged 65 and over was interviewed. This study found that 30.7 per cent of the respondents were "very", or "somewhat" interested in a split equity annuity plan, much higher than for the Los Angeles survey (Daniels, 1975, p. 50). The primary reason for being interested in the plan, expressed by 18.4 per cent of the respondents, was the extra income which it would provide, together with the opportunity to continue living in the house. Unlike the
Los Angeles study, the New York study found that income was not a statistically significant variable in explaining interest in a split equity housing annuity plan. In fact, the New York sample was relatively affluent, with one-third of the households reporting incomes greater than $10,000 in 1973. It was actually found that interest in a split equity housing annuity plan was highest among households which were able to save part of their income in the year preceding the survey. A strong relationship could not be identified between level of asset holdings and interest in such a plan. Interest in the proposed plan declined as housing expenditures rose (Daniels, 1975, pp. 61, 64-65, 71).

No surveys regarding interest by elderly homeowners in a sales-leaseback plan or in a nonrepayable loan were encountered in the literature.

VI. DIFFICULTIES PERCEIVED BY SENIOR CITIZENS

In attempting to determine the demand for a dissavings plan which would enable elderly homeowners to remain in their house, it is necessary to deal with possible difficulties which senior citizens would perceive regarding such a plan. This section will examine objections raised by elderly homeowners in the two surveys discussed above, as well as other difficulties likely to be perceived by elderly homeowners in reacting to the various forms of dissavings plans. An attempt is made to determine whether each difficulty is the result of misunderstandings about the plan, which could be corrected through more
educational effort; or, the result of practical economic concerns which could be dealt with through institutional or legal changes; or, the result of attitudes which might change once the plan was instituted and became less of a novelty; or, the result of deeply-ingrained attitudes which would pose a major barrier to the acceptance of the plan by elderly homeowners.

A. Attitudes Towards Saving

All of the financial plans discussed in this chapter are methods for dissaving home equity in order to enjoy a higher level of current consumption. Thus the attractiveness of these plans will depend in part on the savings habits of elderly homeowners. If elderly homeowners do not generally dissave their other assets, then dissaving home equity would presumably not be an attractive idea.

The elderly are commonly assumed to "live off their savings," using savings accumulated during pre-retirement years to finance a stable and moderate level of consumption during retirement. However, studies have found a tendency of older age groups to save and dissave relatively less than younger age groups. Zero savers are most prevalent in the oldest age groups. In the 1970 U.S. Survey of Consumer Finances, only 12 per cent of all elderly households reported dissaving in 1969 (Daniels, 1975, pp. 16-17, 19). Indeed, this study suggested some tendency on the part of the elderly toward accumulation of funds.

In the 1970 Los Angeles survey, only 9.7 per cent of the respondents identified "selling what you own or using your savings" as one of
the sources contributing toward their retirement finance (Chen, 1973, p. 33). Thus it would appear that enjoying a higher level of consumption is not the primary motive of pre-retirement savings, but that savings are desired as a protection against the uncertainties of old age, a buffer against unforeseen emergencies entailing a large expense, or as a bequest to pass on to children (Daniels, 1975, p. 16). This strong desire for security against unforeseen events may inhibit acceptance of dissavings plans by elderly homeowners.

On the other hand, interest in a home equity dissavings plan may increase if inflationary pressures continue and cause a significant reduction in the living standards of elderly homeowners which they wish to counteract. Interest in a home equity dissavings plan may also be stronger once elderly homeowners are made aware through educational efforts that such a plan is a way of converting an illiquid asset into more liquid form which could be used for large unforeseen expenses without forcing them to move out of their house. The dissavings plans which incorporate lifetime annuity payments (the split equity housing annuity and the nonrepayable loan option with a lifetime annuity) would also help guard against the uncertainties of old age by providing a guaranteed monthly income for life, and thus cut down the perceived need to continue saving.

B. Bequest Motives

Under the dissavings plans discussed in this chapter the amount of home equity available for bequest purposes is reduced. Thus,
attitudes by elderly homeowners towards leaving a house as an inheritance for children should be examined.

The desire to leave an inheritance seems to be a powerful influence on the minds of elderly people. It was found in the 1970 Los Angeles survey of elderly homeowners that many respondents who apparently had inadequate incomes were attempting to leave something to their heirs and were thereby reducing their own comfort and enjoyment in old age. The main motives for bequeathing were parental pride and tradition. Nearly 70 per cent of the sample intended to leave an inheritance, although only 6 per cent of those who intended to do so felt that their children needed an inheritance or would be disappointed without one (Chen, 1973, p. 26).

In the Los Angeles survey, by far the most frequently given reason for disinterest in a split equity housing annuity (expressed by 30.3 per cent of the respondents) was the desire to leave the house to children or relatives (Chen, 1973, pp. 14, 15). The 1974 New York survey also found that the major obstacle to acceptance of a split equity housing annuity plan, as expressed by 30.2 per cent of the respondents, was that such a plan would create inheritance problems (Daniels, 1975, pp. 50-51).

Since exhaustion of home equity at life's end is clearly the intended consequence of a split equity housing annuity plan, this type of dissavings plan would raise the most resistance by elderly homeowners based on the desire to leave an inheritance. A sales-leaseback agreement would also not be attractive to elderly homeowners wishing to bequeath their house to children or relatives, since it involves
selling the house in order to dissave. A nonrepayable loan would be more attractive to elderly homeowners from this point of view since the lender does not hold the residual equity in the house. Thus the homeowner may bequeath the house to children or relatives, who pay back the amount of the loan plus interest when the elderly homeowner dies.

Several points should be noted, however. Firstly, in the case of low income elderly homeowners, who are expected to be especially attracted to the idea of a dissavings plan, the plan is more likely to relieve their children of financial responsibility during their parents' lifetime than to deprive the children of a meaningful legacy. Although the children would not inherit the house in the end, they would not have to help their parents in the interim, and would benefit from an increase in their current disposable income (Chen, 1973, pp. 10, 27). Secondly, a home equity dissavings plan would free up cash on a current basis to give to their children. Thus elderly homeowners could give more while they are alive to enjoy the giving rather than just leaving their assets as a bequest after death (Chen, 1974, p. 7). The proposed dissavings plans would likely be more appealing to elderly homeowners if this aspect were clearly understood. Thirdly, the attitude towards leaving an inheritance may gradually be changing. People generally feel less moral obligation these days to conserve property for bequests, and instead tend to consider it more desirable to provide educational opportunities for their children (Chen, 1973, p. 11). Guttentag (1975, p. 8) points out that "the reason most of the
elderly today retain an equity in their home is because they wish to remain living there and not because they wish to leave a home to their heirs". In the 1970 Los Angeles survey, 36.5 per cent of the sample indicated that today's parents feel less obligation to leave an inheritance than parents in past generations. Also, fewer of the younger respondents planned to leave an inheritance than did the older ones (Chen, 1973, p. 24).

C. Do Not Want Government or Institution to Get House

There seems to be some resistance on the part of senior citizens to having the government or a financial institution get their house, rather than disposing of it more traditionally either by leaving it as an inheritance to relatives (discussed above) or by selling it to another private citizen.

For example, when the idea of a government-sponsored split equity housing annuity program was introduced at a seniors workshop at the University of British Columbia, the main objection which the senior citizens raised was that the government would get the house (Centre for Continuing Education, 1975, p. 2). A small number of elderly homeowners in the 1974 New York survey commented that they did not find a split equity housing annuity scheme attractive because they did not want the government involved in their private affairs (Daniels, 1975, p. 50). In the 1970 Los Angeles survey, 12.1 per cent of the elderly homeowners indicated that they were disinterested in a split equity housing annuity scheme because they had a strong attachment to
their house and did not want to leave it to someone not previously known (Chen, 1973, p. 14).

From this point of view a split equity housing annuity plan would not be attractive, since the sponsoring institution would get the house upon the death of the elderly homeowner. Likewise, a sales-leaseback agreement would not be attractive, since it would probably be an institution rather than a private individual buying the house as a long-term investment. A nonrepayable loan would be the most attractive since the elderly homeowners can sell their house privately and move out at any time, repaying the loan without interest, or they can bequeath their house to their heirs, in which case the outstanding debt is paid by the estate to the lender. In neither case does the lending institution have the residual equity in the house.

D. Do Not Want an Encumbrance on House

To many elderly homeowners, a mortgage is something to fear. They worked for many years in order to pay off the mortgage and get clear title to their house and would be unwilling to encumber a debt-free home (Institute for Urban Studies, 1963, p. 128). In the 1974 New York survey of elderly homeowners, 4 per cent of the respondents commented that a split equity housing annuity plan was not attractive because they would rather sell their house than incur debts.

From this point of view, the nonrepayable loan and the split equity housing annuity options would be unattractive to elderly homeowners, since both options entail mortgaging the house. The
sales-leaseback agreement would likely be more attractive since the house is sold outright, the elderly person incurs no debts, and even has the option of prepaying rent on a long-term basis.

Part of this objection arises from traditional perceptions. Mortgages are usually viewed as a debt to be paid back, and debts are naturally threatening to low income persons with no hope of a higher future income flow. However, if these dissavings plans could, through educational efforts, come to be viewed as a means of using saved money rather than as a debt to be paid back they would likely become more attractive to elderly homeowners.

E. Do Not Want to Sell House Outright

There are many psychological adjustments associated with outright sale of their house and surrender of ownership by elderly homeowners, even if they are permitted to continue living in the house. It is suspected that elderly homeowners would be most reluctant to give up their right to redemption of their house (memo from Purchase to MacPherson, 1974). In the 1970 Los Angeles survey of elderly homeowners a large number of respondents regarded the split equity housing annuity proposal as being identical with outright sale, and this was a major source of disinterest in the scheme. For example, 11 per cent of the respondents said they were disinterested in the plan because it would be just like having a landlord - they would lose their freedom and feel dependent. Actually this represents a misunderstanding of the nature of the split equity housing annuity proposal, wherein the
elderly homeowner can decide at any time to opt out of the scheme, sell the house, and pay back the amount of payments received to date, plus interest. However it shows that an educational effort would be required to deal with this objection against a split equity type plan.

This objection would be a factor leading to disinterest in a sales-leaseback plan, since this option does mean that the elderly homeowner surrenders ownership of his home and continues to live there on a tenant basis. The nonrepayable loan would be the option which would most clearly not raise this difficulty, since the loan is secured by a mortgage on the house and no transfer of ownership to the lender is involved.

F. Problems with Supplementary Income

Objections have been raised that a dissavings plan generating additional income for elderly homeowners would cause an increase in income tax payable plus a decrease in income from government pensions such as the Guaranteed Income Supplement and Mincome which are based on need rather than means (Chen, 1974, p. 3; memo from Campbell to MacPherson, 1974). Thus it is thought that the income from a dissavings plan would not represent a clear economic gain, but would be at least partly offset by other resultant income loss.

In actual fact, under existing tax legislation, the portion of annuity payments to a taxpayer consisting of return of contributed capital is not included in income and thus is not subject to taxation. The portion of annuity payments consisting of accumulated earnings
(that is, interest) is included in income. However, for persons over 65 the earnings portion qualifies for a pension income deduction of up to $1000 and thus is not taxable. In any case, senior citizens would not receive interest under a home equity annuity plan, since the annuity is not paid for in advance. Thus the dissavings options incorporating annuity payments, namely the split equity housing annuity and the nonrepayable loan with a term or lifetime annuity would not create problems by raising taxable income. Similarly, proceeds from sale of a house are not counted in income, even if a capital gain is realized. Thus the sales-leaseback dissavings option would not create problems by raising taxable income either.

For purposes of calculating the Guaranteed Income Supplement, non-taxable annuities are not included in income. Thus, elderly homeowners who joined a split equity housing annuity plan or took out a nonrepayable loan incorporating annuity payments would not jeopardize their Guaranteed Income Supplement. Eligibility for the Mincome Supplement is automatic to persons in receipt of the full Guaranteed Income Supplement. Thus annuity income from a dissavings plan would not affect Mincome payments either.

Proceeds from sale of a house are not considered as income in calculating eligibility for the Guaranteed Income Supplement. However, if the money from selling a house is subsequently invested, the interest earnings from that money are counted as income. Thus the interest earnings from money received by an elderly homeowner through a sales-leaseback agreement would affect his government pension. From this
point of view a sales-leaseback agreement incorporating prepaid rent would be more attractive to an elderly homeowner than a sales-leaseback agreement involving monthly rental payments, since the payment in cash to the homeowner would be much less under the former option, and thus would earn less interest.

G. Would Lose Too Much in Interest/Plan Would Not Provide Enough Income

Sixteen per cent of the respondents in the 1970 Los Angeles survey and 6.1 per cent of the respondents in the 1974 New York survey said that a split equity housing annuity plan would not be attractive because it would not provide enough yearly income (Chen, 1973, p. 14; Daniels, 1975, p. 50). In the 1970 Los Angeles survey, 10.3 per cent of the elderly homeowners commented that selling their house would provide more money than a split equity annuity scheme, and that they would prefer a lump sum payment to an annuity plan.

These comments indicate an attitude on the part of the elderly homeowners that getting involved in an annuity plan (either a split equity housing annuity plan, or a nonrepayable loan incorporating a term or lifetime annuity) would not be a good financial investment. It is true that payments under a home equity-financed annuity plan will always be considerably less than under an immediate life annuity since in the former plan purchase payment is received by the issuer only when the annuitant dies or moves out, rather than when the annuity is purchased (Daniels, 1975, p. 5). The higher the discount rate charged by the issuing institution the lower would be the present value of a
given asset in the future and the smaller would be the income provided by the asset. Thus in times of high interest rates this difficulty would be particularly strong. The maximum annuity payable to any given homeowner under a nonrepayable loan is even smaller than under a split equity plan, since in the former plan the homeowner retains a residual equity in his house. However, it must also be considered that a housing annuity plan provides elderly homeowners with the financial and emotional security of the right to lifetime occupancy of their house whereas a comparable conventional annuity plan would necessitate selling their house and moving out plus commencing monthly rental payments for housing. Thus a difficult trade-off is involved.

This fundamental difficulty would apply to all forms of dissavings plans proposed in this chapter. Elderly homeowners seem to be adverse to the idea of "losing money" by being charged interest on money they are receiving. This would make any form of split equity housing annuity, nonrepayable loan or sales-leaseback agreement relatively unattractive, compared to selling the house and moving out. Clearly, an elderly homeowner would always be financially better off to sell his house, move out and subsequently receive interest payments than to join a home equity dissavings plan and subsequently be charged interest on the money he is receiving. Two questions may be raised:

1) What proportion of elderly homeowners desiring additional income would value staying in their present house enough to take advantage of a home equity dissavings plan instead of selling their house, moving out and consuming the interest
from their invested money?

2) What proportion of elderly homeowners intending to stay in their house would desire additional income enough to take advantage of a home equity dissaving plan involving them in interest charges instead of staying in their house with no dissavings plan, leaving their home equity intact, incurring no interest charges and foregoing a potentially higher level of current consumption?

It is not possible to answer these questions a priori, but merely to assert that the higher the interest rate, the less attractive the dissavings proposals presented in this chapter will appear to elderly homeowners.

H. Might Die Too Soon

The risk of dying shortly after beginning to receive annuity payments is a possible deterrent to participation by elderly homeowners in a split equity housing annuity plan, since if a homeowner dies under this plan he leaves his equity to the investor regardless of the amount of annuity benefits he has received. In the 1970 Los Angeles survey of elderly homeowners, 17.4 per cent of the respondents indicated that they were disinterested in a split equity housing annuity plan because they did not think they would live long enough to get out from the plan what their house is worth (Chen, 1973, p. 14).

To counteract this unfavourable aspect of a split equity housing
annuity plan it has been proposed that an option to guarantee a fixed number of annuity payments be offered (Daniels, 1975, pp. 6, 52). For example, if payments were guaranteed for a minimum of five years and the homeowner died before receiving the full amount guaranteed her, a designated beneficiary would receive the remaining payments. Responses in the 1974 New York survey indicated a very favourable reaction to the guaranteed payment option - 54.2 per cent of the sample said they would be more interested in a split equity housing annuity plan if this option was available (Daniels, 1975, p. 53).

A nonrepayable loan would be more attractive to elderly homeowners than a split equity housing annuity plan from this point of view, since when the elderly homeowner dies under the former plan only the amount of the loan plus interest is repaid to the lender. The homeowner's beneficiaries rather than the lender hold the residual equity in the house, and early death leaves the owner's equity largely intact. A sales-leaseback agreement would also likely be attractive to elderly homeowners from this point of view, since no annuity payments are involved and thus there is no chance of "losing out" by dying too soon.

I. Desire to Move

It is interesting to note that in the 1970 Los Angeles survey of elderly homeowners only 18 out of 455 respondents (4 per cent) said that they were disinterested in a split equity housing annuity scheme because they wanted to move somewhere else. Thus, desire to move from their house evidently would not be a significant source of
disinterest in the various dissavings plans which have been presented in this chapter.

VII. DIFFICULTIES PERCEIVED BY PLANNERS AND POLICY-MAKERS

This section examines some possible difficulties that planners or government policy-makers would perceive regarding a home equity dissavings plan which enabled elderly homeowners to stay in their house. It is important to deal with these issues, since government involvement in starting up such a dissavings plan would be required, at least initially.

A. Housing Maintenance

Housing planners desire to lengthen the economic life of the housing stock through reducing deterioration, and thus in turn reduce demand for new construction (Grigsby, 1963, p. 250). Thus, planners would be likely to express concern over the maintenance of housing units taken into a home equity dissavings program (e.g., Chen, 1974, p. 2). The issue raised is that once elderly persons no longer possessed full equity in their house and no longer perceived the house as their own, there would be little incentive for them to provide more than the minimum maintenance necessary to assure livability, or to carry insurance on the house. Thus the housing stock would deteriorate. In the 1970 Los Angeles survey of elderly homeowners 48.1 per cent of the respondents felt that "people wouldn't keep up the house" if they joined a split equity housing annuity
program (Chen, 1973, p. 31). Thus this would seem to be a serious potential problem.

However, two points should be made in connection with this issue. Firstly, the problem of housing maintenance can be dealt with within the framework of the dissavings plans. The best type of arrangement for ensuring adequate maintenance will vary for each dissavings option; thus the various options are discussed separately in the following section.

1. Split Equity Housing Annuity

The split equity contract should stipulate the responsibility of the seller and buyer for payment of maintenance, insurance and taxes. The best division of responsibility depends on whether the annuity is fixed or variable.

Under a fixed annuity contract, the best arrangement is for the buyer to assume responsibility for all these charges, deducting a fixed amount from the gross annuity. An institutional buyer would be in a stronger market position in buying insurance and maintenance services than the individual seller, and he would have an incentive to keep expenses low. Also, if expenses were to rise faster than expected the impact on the buyer's wealth position would tend to be offset by more rapid than expected increases in property values (Guttentag, 1975, p. 15).

Under a variable annuity contract the best arrangement is for the seller to assume responsibility for expenses. Since the periodic
adjustment in his annuity is contingent upon reappraisal of his property, the elderly homeowner has every incentive to maintain the property and carry adequate insurance in order to keep up the value of his house (Guttentag, 1975, p. 17; Chen, 1970, p. 14). In order to make this incentive effective, promotional efforts for this plan should emphasize the relationship between upkeep and amount of annuity payments.

2. Nonrepayable Loan

Under a nonrepayable loan (whether in the form of a lifetime annuity, a term annuity or a lump sum payment), the elderly homeowner would be responsible for maintenance and insurance costs. This case is similar to that of the elderly homeowner who remains in his house without joining a dissavings plan, since under a nonrepayable loan the homeowner does not sell his house to the issuing institution. His home becomes mortgaged, but the elderly homeowner retains the equity of redemption; thus it is in his financial interest to adequately maintain and insure the house, at least up to the point in time where his debt comes to equal the value of his house. After this point there would be no financial incentive for the elderly homeowner to maintain his house.

3. Sales-Leaseback Agreement

Under this type of agreement, the buyer should assume responsibility for maintenance and insurance expenses, as is usual in tenant-
occupied structures, since it is the new owner who has the greatest interest in maintaining the value of his investment. The size of these expenses would be taken into account in determining the rent which the elderly person is to pay.

The second main point to be made in connection with the maintenance issue is that inadequate maintenance by elderly homeowners occurs without any formal home equity dissavings plan. Guttentag (1975, p. 9) points out that undermaintenance is probably at present the most widely employed method of dissaving by elderly homeowners. One analysis demonstrated that elderly homeowners have low expenditures for maintenance, repairs and improvements, even though one would expect them to spend more considering the age of their homes (Institute of Industrial Relations, 1970, p. 831). Grigsby (1963, p. 250) and Nourse (1973, p. 107) both note that low incomes are the chief underlying cause of inadequate housing maintenance by owner-occupiers, since little money is available for maintenance and improvements. Thus it might even be expected that level of housing maintenance would be higher when elderly homeowners participated in a dissavings program, since such a program would increase their current incomes.

B. Health Problems

One objection which has been raised to the concept of home equity dissavings plans is that by aiding elderly homeowners financially, these plans would enable them to stay in their houses longer than they are fit to stay there healthwise. One memorandum from the Appraisal
Division of C.M.H.C., commenting on a split equity housing annuity proposal stated, "We have the impression that this proposal is narrow in that it appears as an interesting mathematical hypothesis but omits the real problems of advancing age, medical care and welfare support" (memo from Purchase to MacPherson, 1974). Likewise, at a conference on housing annuities one participant commented that if elderly people are encouraged to remain at home there may be a home care problem, and that the public sector may be pressured to enter this field even if the private sector sponsors the dissavings plan (Chen, 1974, p. 8).

In answering this objection, consideration must be made of whether it is judged desirable to keep the elderly in the community as long as possible by providing decentralized home care services rather than forcing them to enter some level of institutional care. The trend among welfare and health care experts today is to endorse the community-based home care approach as being the least costly for government and the most beneficial for the elderly. For example, the provincial government-commissioned Foulkes Report on "Health Security for British Columbians" recommended instituting a range of home care services for the elderly (Social Planning and Review Council, 1974, p. 25). Another study partly funded by the government of British Columbia, on community care for seniors, also recommended a wide range of home care services for partially dependent elderly people in the community (Garrett and Hill, 1972). It is not within the scope of this thesis to examine welfare and health care policies. Nevertheless, it can be pointed out that if implementation of a home equity dissavings
plan provided a push for development of home care programs, this would not necessarily be a bad thing.

As for the objection that elderly homeowners joining a dissavings plan may attempt to stay in their homes even when they become mentally confused or beyond the help of home care services, this could indeed be a problem. However, it is no more of a problem than with wealthier elderly homeowners who have enough money to stay in their house without a dissavings plan. It would show discrimination against income poor elderly homeowners to block implementation of a dissavings program merely in order to prevent the possibility of this problem arising in selected cases. Other welfare policies should be developed to cope with this problem.

C. Underutilization of the Housing Stock

An underutilization of the housing stock resulting from the reluctance of elderly homeowners to adjust their housing status to changes in household size has been widely noted. Houses bought to meet the needs of a family with several children are often kept even after all the children have moved out and set up homes of their own - the "empty-nesting" phenomenon (Daniels, 1975, p. 12; Ashley, 1958, p. 8). Planners are concerned with ensuring a good match between the existing housing stock and the needs of the population. Thus they tend to object to a home equity dissavings plan on the grounds that it would promote underutilization of the housing stock by encouraging elderly homeowners to stay even longer in houses "too spacious for their
needs," which is bad economically and sociologically because it prevents younger families who need this housing from moving in (Chen, 1974, p. 6; Chen and Hewlett, 1972, p. 28). It is also argued that "empty-nesting" results in underutilization of public facilities such as schools in single-family residential neighbourhoods.

Several points should be made in connection with this issue:

1) It is morally questionable whether planners have the right to determine how much housing space older people should be allowed to occupy, and to say that one or two elderly people living in a house are consuming "too much" space. We do not force younger wealthy families who may occupy much larger houses to move from their homes. Chen, for instance (1974, p. 6), reduced the problem of the elderly being overhoused to a value question of whether lower income people should have the privilege of sufficient housing to accommodate visitors. If elderly people really want to stay in their house and can afford to do so without public subsidy, then this situation of itself does not represent inefficient utilization of the housing stock in a strictly economic sense.

In addition, this argument based on efficient utilization of space ignores the psychological and social factors involved in housing the elderly - for example, the strong emotional attachment which many older people have for their house. By making it possible for elderly persons to remain in their house after retirement, a home equity dissavings plan would help
cushion the transitional problems associated with retirement (Chen and Hewlett, 1972, p. 28).

2) A home equity dissavings plan does not permanently tie up the housing stock; it only delays for a few years the time when a younger family could move into the house. It is not anticipated that many elderly homeowners will remain in their houses for long years even with the financial assistance provided by a dissavings plan. A dissavings plan could reduce the initial uncertainty at retirement time by providing income support, but after they have adjusted to retirement life some elderly people would likely decide to move to a smaller home. Others would require institutionalized care after a period of time (Chen, 1974, p. 6).

3) A home equity dissavings plan would not intrinsically produce an economically inefficient utilization of the housing stock since it does not encourage elderly homeowners to stay in their houses through giving them public subsidies. A general principle is that elderly homeowners should not be subsidized to stay in their houses, but neither should they be penalized in any way for doing so.

4) Some elderly homeowners would rather move out to smaller accommodation but do not do so because they are afraid of inflation and are uncertain over how long they will live. The dissavings options which incorporate a lifetime annuity - namely the
split equity housing annuity and the nonrepayable loan paid as a lifetime annuity - would actually increase housing flexibility for elderly homeowners, since the monthly annuity payments continue to be paid after the homeowner moves out of his house and are even increased in amount. In none of the dissavings options does the elderly homeowner, by moving out, forfeit any of the financial benefits he would have received under the plan by staying in the house. Thus the dissavings plans do not promote inefficient utilization of the housing stock by providing a financial incentive for the elderly homeowner to stay longer in his house.

5) A home equity dissavings plan would produce inefficient utilization of the housing stock unless accompanied by other policies designed to broaden housing options. As discussed in Chapter 1, elderly homeowners are often loath to move out of their familiar neighbourhood. At present in Vancouver, however, there are many single family residential neighbourhoods which contain few housing options because of zoning regulations. Elderly homeowners desiring to move into smaller accommodation such as a townhouse or apartment often must move out of their familiar neighbourhood.

Some elderly homeowners may not want all the space in their house but nevertheless remain in the house because they do not wish to move from the neighbourhood. Others move unwillingly into a new neighbourhood because they cannot afford to keep up
their house. Thus introduction of a home equity dissavings program by itself would encourage some elderly homeowners to stay in their house who would not choose to be there if there were other smaller housing accommodation available in the neighbourhood, and who would have moved to smaller accommodation in another neighbourhood if a dissavings program had not been introduced.

Therefore a dissavings program should not be introduced in isolation. Policies leading to more housing options within single family neighbourhoods should be simultaneously investigated. For example, zoning changes should be examined which would allow rental apartments, condominium apartments, condominium townhouses, co-op housing or small single detached houses on very small lots to be built in single family neighbourhoods. The possibility of legalizing suites within houses in single family neighbourhoods should also be pursued further. This would open the possibility of an elderly couple subdividing their house into two or more suites, continuing to occupy part of their house and renting out the rest. It would also allow elderly homeowners to sell their house and move into a basement suite of a converted house in the same neighbourhood. Each of these housing options would have its own problems and would require detailed study. It is beyond the scope of this thesis to study them, but it is essential to note that other housing policies working to widen options would need to be implemented along with a dissavings plan, so that only those elderly homeowners who really wanted to remain in their house
would be using the dissavings plan.

Thus in summary, the aim of housing policy should be to broaden housing options. Home equity dissavings plans would make new options available to elderly homeowners and thus from this point of view should be pursued. But other options should also be created so that pull factors to other desirable options will attract the elderly out of situations of overhousing (Chen, 1974, p. 9). These pull factors are much preferable to push factors such as financial problems which force elderly homeowners to give up their house and result in much emotional hardship.

VIII. DIFFICULTIES PERCEIVED BY POTENTIAL SPONSORS

In examining the feasibility of implementing dissavings plans for elderly homeowners, it is obviously important to determine the willingness and ability of financial institutions to be involved in creating and administering such plans. Thus this section will examine various difficulties perceived by financial institutions regarding involvement in these plans, and the possible problems their concerns would raise.

A. Risks to the Investor

1. Default on Rent Payments

Under a sales-leaseback agreement, investors could be concerned about the possibility of decreased yield on their investment resulting from defaults on monthly rental payments. This concern could be dealt with quite simply by only offering elderly homeowners the sales-leaseback
option involving prepaid rents. Risks to the lender would also be minimized if the government were to underwrite a lease insurance plan, in much the same way as CMHC established a Mortgage Insurance Fund under the authority of the National Housing Act to insure NHA approved lenders against loss on the mortgage loans they make.

2. Difficulty of Predicting Property Value Changes

The proposed dissavings plans are partly based on the assumption that the investor can accurately predict factors such as future neighbourhood changes and inflation rates when appraising the elderly homeowner's property (Chen, 1974, p. 3). However, investors argue that accurately estimating the future value of the property is very difficult, especially for such a long range investment with no fixed time parameter (interview, K. Sheufelt). Thus by becoming involved in these plans, investors would be running the risk that property values would drop or would not appreciate at as high a rate as estimated, thereby decreasing the return on their investment.

In the case of a split equity housing annuity this problem would be solved by the investor's insistence upon a variable annuity contract. Under this type of contract the property is periodically reappraised and the size of the annuity payments is adjusted based on actual changes in the property value. Thus if property value declined, annuity payments would decline. A sales-leaseback agreement involving a relatively short term lease (for example, five years) would also cut down risks to the investor to a more acceptable level, since property
value changes are easier to predict within a definite and relatively short time framework (interview, K. Sheufelt).

Under the other dissavings options, the problem is not so easily solved. Without government intervention, private investors would likely either be reluctant to become involved in these plans or would charge such high interest rates to be sure of covering their risks that the plans would not be attractive to elderly homeowners. To solve this problem of changing property values, a plan could be created and underwritten by CMHC to guarantee the property's value over its economic life in return for an insurance premium (Chen and Hewlitt, 1972, p. 26). This would safeguard investors against declining property values but would not safeguard them against property values appreciating at a lower than estimated rate. Thus financial institutions would likely use very conservative estimates of the rate of property value appreciation.

3. Depreciation of Property Values Through Undermaintenance

Investors involved in a dissavings plan would want some control over maintenance of the houses they invested in, since house equity can rapidly disappear if the house is not kept up (interview, T. Ripley).

This problem is easily answered for dissavings options where the investor assumes responsibility for maintenance and insurance, namely the split equity fixed annuity and the sales-leaseback agreement (see pp. 97, 98-99).
The problem is more acute for dissavings options where the elderly homeowner assumes responsibility for maintenance and insurance, namely the split equity variable annuity and the nonrepayable loan. Under these options, it is assumed that there is sufficient financial incentive for the elderly homeowner to maintain his house (see pp. 97-98). However, investors are concerned that elderly homeowners tend to let their house run down even if it is to their financial benefit not to do so, just because it takes too much effort to maintain it or because they do not perceive what needs to be done. As a result, homes can depreciate very quickly (interview, T. Ripley).

Thus investors want to ensure against this risk of depreciation by writing a maintenance clause into the variable annuity contract or loan agreement, and setting up some enforcement mechanism involving maintenance inspectors (interview, K. Sheufelt). However, elderly people would likely be very antagonistic to having another person dictate what they must do to their house, especially when they have not even sold their house to that other person.

As a result, concern has been expressed that financial institutions might attempt to minimize the risk of depreciation and avoid problems and confrontations by only being willing to consider newer, high-quality, well-maintained homes for variable annuities or non-repayable loans (memo from Campbell to MacPherson, 1974). The problem is that elderly persons owning high quality houses in fashionable neighbourhoods are not likely to be the ones most in need of the additional income which home equity dissavings plans could provide.
Government insurance on property values would help reduce risk, but the lending institutions would likely still lean towards the high return, good quality homes. Another option is for financial institutions to charge higher interest rates to compensate for the extra risks, thus making the plans less attractive to elderly homeowners.

4. Interest Rate Risk

A major problem of dissavings options presented in this chapter is interest rate risk to the lending institution (interview, K. Sheufelt). Sharp increases in market interest rates expose the institutions to serious difficulties as the price they pay on their short term liabilities rises much more sharply than earnings on their long term assets (Guttentag, 1975, p. 23).

In the case of the nonrepayable loans the interest rate risk could be partly shifted from the lender to the borrower by writing variable interest rate provisions into the loan contracts. This type of arrangement would likely be demanded by financial institutions before they would become involved with these loans (interview, T. Ripley). However, even variable rate provisions provide lenders with incomplete protection. Increased interest rates would result in a more rapid rise in debt than was originally anticipated. However, since the size of loan payments are estimated on an actuarial basis, this increased debt would only be recovered by the investor in cases where the elderly homeowner died or moved out earlier than expected. Higher than anticipated losses to the investor would result from the
homeowners who died late. Variable rate provisions could not meaningfully be applied to split equity housing annuities or to sales-leaseback agreements. To minimize risks to the lenders under all three dissavings plans, the government might possibly have to absorb the interest rate risk as a form of social subsidy.

5. General Risk in Being Involved in an Untried Scheme

Financial institutions tend to be very conservative and adverse to risk-taking. Thus they are loathe to become involved in a new venture until its feasibility has been demonstrated. Financial institutions object that there are too many unknown factors and too many risks for them to become involved in a home equity dissavings plan especially since it would involve such a long range open-ended financial investment (interview, K. Sheufelt; interview, T. Cully). For instance, they would not know what mortality rate assumptions or property value appreciation rates to use (Institute of Industrial Relations, 1970, p. 829). They would not be able to accurately predict administrative costs for the various dissavings schemes or what the risks and returns compared to other financial instruments would be and thus would not know what interest rate to charge (interview, T. Cully).

Thus the need for some form of initial government involvement in implementing a dissavings plan is indicated. The government could set up and run the program initially, working out the problems and
demonstrating the program's viability to financial institutions, as it did with the Assisted Rental Program, for example. Alternatively, the government could act as guarantor, ensuring a certain net yield to financial institutions undertaking a dissavings program while the details of the program are being worked out and adjusted as necessary, and the inevitable initial problems solved. Some investors may lament government action on the grounds that the government is inefficient and is already involved in too many areas (interview, T. Ripley; interview, K. Sheufelt), but it appears that a degree of government involvement in a dissavings plan would be necessary.

B. Supply of Capital for a Dissavings Program

1. Problems in Time of "Tight Money"

The objection has been raised that the lending activities of financial institutions are linked to a business cycle and to changes in national monetary policy, which would prevent them from supplying a constant stream of funds to such a plan (memo from Campbell to MacPherson, 1974). Another investor has remarked that once financial institutions became involved in a dissavings plan incorporating an annuity, they would be committed to making monthly annuity payments and could not make necessary adjustments in times of tight money (interview, T. Cully).

However, the capital supply problem for dissavings plans is basically no different than for ordinary mortgage lending. There is no more necessity for a constant stream of funds to be available for a
dissavings program than for ordinary mortgage lending. In times of tight money when less money was available, interest rates charged on dissavings plans would be higher, and fewer contracts would be entered into. One investor has remarked that there is always capital available for people who are willing to pay the price (interview, T. Ripley).

Similarly, once the program had been running awhile, although investors would be committed to making monthly payments under a dissavings plan incorporating an annuity, they would at the same time be acquiring full equity in houses (under a split equity housing annuity plan) or receiving full repayment of loans (under a nonrepayable loan) as elderly homeowners died or moved out of their houses. Thus in times of scarce capital investors would merely hold back on reinvesting this capital.

2. Large Front End Costs

Starting up a dissavings program would entail high front end costs, since there would be a period when investors would simply be paying out capital and not receiving any returns. Thus investors note that dissavings programs would run into a cash flow problem, and that it is doubtful whether a financial institution could commit enough capital to such a scheme at any one time to get it going (interview, T. Cully). However, if the government made front end loan funds available in order to start the scheme, financial institutions would be more inclined to become involved in a dissavings plan. Once the program got underway, turnover in houses and repayment of loans to
elderly homeowners would occur within a reasonably short period of years, the scheme would become self-sustaining, and the government loan could be repaid with interest (Institute of Industrial Relations, 1970, pp. 833-834).

3. Cash Flow Problems

A related problem mentioned by financial institutions is that of ensuring that enough cash would be available on a continuing long-term basis to keep the program going (interview, T. Cully). Financial institutions such as banks, which are largely dependent on short-term fluctuating deposits would have difficulty operating a dissavings plan unless they matched it, for example, with a forced savings plan whereby depositors would sign a contract agreeing to make a series of regular pre-planned deposits (interview, T. Cully). However, a forced savings plan would have to carry with it a bonusseled interest rate to make it attractive to depositors, and consequently a higher interest rate would have to be charged on the dissavings plan.

Trust companies administering extensive estates and trusts, or life insurance companies would be more suitable financial institutions to offer a dissavings plan, since they both have a large pool of capital and are interested in long-term investments.

4. Opportunity Cost of Investing in Dissavings Plans

Obviously if financial institutions were to begin investing in dissavings plans for elderly homeowners there would be correspondingly
less capital available to invest in alternative areas such as residential mortgages. Thus more people would be competing for the same amount of investor's funds.

The implications of this for the capital market would depend on how many elderly homeowners would take advantage of a dissavings scheme if it were offered. This is an important policy question, and one which none of the literature on dissavings plans touches upon. However, it is probable that the effect on the capital market would be very marginal and certainly not strong enough to affect interest rates, just because the number of elderly homeowners involved would be so small compared to the overall demand for investment capital.

C. High Interest Rates

1. High Administrative Costs

It is argued that the administrative costs for a split equity housing annuity plan or a nonrepayable loan would be very high, since these plans are so complex (interview, T. Cully; interview, T. Ripley). For example, the accounting on split equities is very tricky and time-consuming (Guttentag, 1975, p. 31). On the other hand, split equity annuities can be calculated from simple algebraic equations, whereas calculations for nonrepayable loans are extremely complex and practically speaking require a computer program. Constant supervision to keep track of where their investment stands would also be very expensive for financial institutions (interview, T. Ripley). The problem of housing maintenance mentioned earlier would likely
necessitate hiring maintenance inspectors and arbitrators which would further add to administrative costs. High administrative costs would result in higher interest rates, thus making the plans less attractive to elderly homeowners. The sales-leaseback agreement is administratively simpler than the other two options and thus would not be as prone to this difficulty.

Some of these administrative costs would be high only in the initial stages of the programs while they were being developed. Other costs are likely perceived by investors to be higher than they actually would be, stemming out of a lack of familiarity with the programs and a conservative attitude towards any new idea.

Thus the difficulties would likely be eased by the government initially ensuring a certain net yield to investors and subsidizing administrative costs in the early cumbersome stages of the program before administrative procedures have been streamlined. However, administrative costs for the split equity housing annuity plan and the nonrepayable loan will likely always be slightly higher than for a conventional mortgage loan.

2. High Interest Rates would make Plan Unattractive to Elderly Homeowners

Objections have been raised that high interest rates kill these schemes (interview, T. Ripley). Since investors do not recover any of their invested capital until after the elderly homeowner dies or moves out, the interest charges to the elderly homeowner for the
financial benefits he receives amount to a considerable sum especially in times of high interest rates. Thus financial institutions tend to have reservations about these schemes.

However, this objection really only affects how many elderly homeowners would be interested in joining these plans and has nothing to do with whether it would be feasible for financial institutions to offer a dissavings plan to interested homeowners. For example, conventional mortgages carry a high interest rate, and result in high interest payments for younger homebuyers, yet this does not make it infeasible for lending institutions to offer mortgage loans.

D. Competence of Borrowers

Financial institutions point out that most elderly homeowners do not have much knowledge of complex financial matters, and that they would have difficulty grasping the nature of the proposed dissavings schemes and understanding what they were committing themselves to (interview, T. Cully; interview, K. Sheufelt). Misunderstandings could lead to some extremely unhappy customers, negative news media coverage and a strong public outcry.

However, this difficulty is not insurmountable. Basically, it would necessitate a well-planned consumer education program, to help elderly homeowners understand what implications each of the dissavings plans would have over time for their income flow and their equity position. Proper information would also help allay fears that financial institutions were trying to swindle them and make huge
profits, an issue that would likely be picked up by the news media (interview, K. Sheufelt). The sales-leaseback agreement would be relatively easy to understand, since it is conceptually the simplest of the three dissavings options. The nonrepayable loan would be more difficult to understand and the split equity housing annuity probably the most difficult of all, but the educational task is not impossible. For instance, in the case of nonrepayable loans lenders should be required to provide the elderly borrower with a schedule showing the exact pattern of his indebtedness over a period equal to perhaps twice his expected life (Guttentag, 1975, p. 50). This would prevent any possible misunderstandings regarding accumulation of interest.

E. Summary Comments

Investors seem to concede that in purely mathematical terms the proposed dissavings plans could be viable. For instance, there is no reason on actuarial grounds why a split equity housing annuity plan would not "work" (interview, T. Ripley). Likewise it is agreed that a nonrepayable loan scheme incorporating a lifetime or term annuity could work and that the danger of loss to the investor would be minimal if the plan was properly underwritten (interview, T. Ripley). A sales-leaseback agreement could also be set up in such a way that investors would receive their required rate of return.

Thus if the other difficulties perceived by financial institutions were dealt with, the proposed dissavings plans would theoretically be capable of implementation.
IX. HOW A DISSAVINGS PLAN WOULD WORK - MONETARY EXAMPLES

A. Introduction

In this section simple examples of the financial benefits elderly homeowners would derive from each of the three main dissavings options discussed in this chapter are worked out, and the economic viability of the options is considered.

An attempt is made to keep the examples for the three options fairly comparable in terms of assumptions regarding property value, interest rate, rate of property value appreciation and age and sex of homeowner, and to choose plausible values for these variables. This has not been totally possible because of the complexity of some of the calculations involved.

Each of the dissavings options discussed in this chapter has at least two main sub-options as well as countless minor variations according to how the contract is set up and what assumptions are made regarding maintenance, improvements, move-outs, guaranteed benefits, etc. This section will only work out examples for one sub-option within each of the three main options and will use the simplest possible cases.

All of the examples are for a male homeowner aged 65, who according to annuity mortality tables would have a life expectancy of approximately 15 years. The current property value of this homeowner is assumed in all cases to be $50,000 and the house is assumed to be owned free and clear.

It is impossible to predict exactly what a lender's required rate
of return would be under the proposed dissavings options until the market had actually developed, because it would depend on such factors as perceived risk and administrative costs. However it is assumed that if the administration for these schemes had been set up and streamlined as much as possible and if government offered insurance on the plans, that the investor's required rate of return would be close to the mortgage rate. Thus an interest rate of approximately 10 per cent has been used in the following examples.

Land is assumed to be appreciating at approximately the rate of inflation, 5 to 6 per cent per year. However elderly homeowners are assumed to be living in older houses which are depreciating at a certain rate each year. Thus the net rate of property value growth is assumed to be 3 per cent.

By varying any of these assumptions, the financial benefits would be changed. For example, all other things being equal, a female would receive a lower level of financial benefit than a male under options incorporating an annuity because of her longer life expectancy. Likewise, all other factors remaining unchanged, a person older than 65 would receive higher benefits than a person aged 65, because of the shorter life expectancy of the older person. Thus, the higher the mortality rate, the higher the level of financial benefits.

The effect of varying property values can be calculated in most cases merely by multiplying benefits in the following examples by the appropriate factor. For example, if property value was assumed to be $100,000 instead of $50,000, size of annuity payments
in the following examples would simply be doubled.\textsuperscript{2}

All other things being equal, the higher the interest rate charged by the investor, the lower would be the level of financial benefits to the elderly homeowner. The higher the net rate of property value appreciation, the higher would be the level of financial benefits to the homeowner, all other factors remaining unchanged.

B. Split Equity Housing Annuity

The following example is calculated for a simple fixed lifetime annuity. The formula for determining the split equity annuity is:

$$\ A = V_0 \frac{(1+p)^n}{(1+r)^n} \cdot \frac{1}{a}$$

(Guttantag, 1975, p. 10)

where, $A$ = the yearly amount of the annuity payment

$V_0$ = the current property value = $50,000$

$p$ = the net rate of property value appreciation = 3%

$r$ = the investor's required rate of return = 10%

$n$ = known life expectancy = 15 years

$a$ = the present value of one dollar per year for $n$ years discounted at $r$

Under the above assumptions the yearly annuity payment for a male homeowner aged 65 with a $50,000 home would be $2452. The homeowner would receive this payment each year for the duration of his life, and upon his death, the investor would acquire full equity in the house. If the homeowner moved out of his house before death and conveyed the

\textsuperscript{2} In the case of a sales-leaseback agreement more caution would have to be used, since market rent for a $100,000 house is not simply double that for a $50,000 house.
title to the investor, his annuity payments would be increased for the duration of his life (as explained on p. 66).

C. Nonrepayable Loan

The following example is calculated for a nonrepayable loan paid as a life time annuity. As explained earlier, calculations for a nonrepayable loan are extremely complex since they cannot be based on expected life of a particular homeowner but must use a cumbersome procedure employing the entire mortality distribution. This is because under a nonrepayable loan the losses to the investor from homeowners dying late are not offset by gains from homeowners dying early, since the homeowner retains the equity of redemption in the house. The net yield to the lender, defined as the contract interest rate minus the expected loss rate, is calculated on the net flows to the lender over the total life of a cohort of borrowers having a specific mortality distribution. Fortunately, this procedure has been computerized (Guttentag, 1975, pp. 31-36). Thus the following example is drawn from a sample table derived by Guttentag (1975, p. 35) using this computer program.

A male homeowner aged 65, with a $50,000 house assumed to appreciate at 3 per cent per year could receive yearly annuity payments of $1440 at a contract interest rate of 12 per cent giving a net yield to the lender of 10.33 per cent. This same homeowner could choose to receive a smaller yearly annuity by paying a lower contract interest rate or a larger yearly annuity by paying a higher contract interest rate, with all combinations calculated to give the same net yield to
the lender. For instance, the homeowner could receive yearly annuity payments of $1200 at a contract interest rate of 11 per cent, giving a net yield to the lender of 10.25 per cent. Large annuity-high interest rate combinations would benefit homeowners who die late at the expense of those who die early, relative to small annuity-low interest rate combinations.

Assuming the homeowner chooses the $1440 option, he would receive this payment each year for the duration of his life. If he died early there would be some amount of equity left in his estate after his loan had been repaid. If he died late there would be no home equity left in his estate.

D. Sales-Leaseback Agreement

The following example is calculated for a sales-leaseback agreement incorporating prepaid rent. The current market value of the elderly homeowner's house is assumed to be $50,000, and the net rate of property value appreciation is assumed to be 3 per cent. If closing costs of selling a house are assumed to be 5 per cent, then the current net value of the house is $47,500. The rent to be charged on the house is assumed to be $300 per month, fully net (of taxes, insurance, maintenance, etc.). If the elderly homeowner selling his house and the buyer enter into a 15 year lease agreement, then the value of the rent stream for the 15 years discounted to the present at a rate of 10 per cent is $27,382, while the net value of the house to the buyer in 15 years (that is, $74,003) discounted to the present at a rate of 10 per
cent is $17,716. Thus the investor requiring a 10 per cent rate of return could pay the elderly homeowner the sum of the value of the rent stream and the house value in 15 years both discounted to the present, which would be $45,098. In this case, the elderly homeowner would begin making monthly rental payments of $300 per month. Or, the investor could pay the elderly homeowner the value of the house discounted to the present - $17,716. In this case the homeowner would live in the house for 15 years without making any rental payments.

Assuming the male homeowner aged 65 chose the prepaid rent option, he could then take his $17,716 and invest it at say 10 per cent interest. If he simply consumed the interest on his principal he would have $1772 per year additional income. Or, if he wanted to slowly consume the principal so that none was left at the end of 15 years, he could have $2329 per year additional money for current expenditures. For leases with shorter terms than 15 years the homeowner would be paid more since the value of the house to the investor when he sells it, discounted to the present would be greater.

E. Sell the House and Move Out

For the sake of comparison an example is presented of the financial benefits accruing to an elderly homeowner if he sold the house and moved out. As in the other examples, the current market value of the house is assumed to be $50,000. After deducting closing costs of 5 per cent, the elderly homeowner would receive $47,500. Investing this money at 10 per cent, the homeowner would receive $4750 per year in
interest payments. Assuming the elderly person had to pay $200 a month or $2400 a year for rent in his new accommodation, he would still be left with an additional income of $2350 per year, and his principal left intact.

F. Conclusions

All the above calculations are given as illustrations only, indicating the general magnitude of payments associated with the various dissavings plans.

Clearly, as expected, the homeowner would be financially the best off to sell the house and move out, since he would be making interest on his assets instead of paying interest. However, the examples have shown that it is possible even in times of high interest rates to design a plan whereby the elderly homeowner can liquidate his house, receive substantial additional income, continue to occupy his familiar home for a long period of time, and in addition have security against rising rents.

It is not possible to predict a priori how many homeowners desiring additional income would value staying in their present house enough to take advantage of these plans instead of selling their house, moving out and consuming the interest from their invested money. However, it is possible to say that the plan would be more attractive the lower interest rates were, since this would substantially increase the benefits they would receive under any of the three dissavings options. For example, under a nonrepayable loan, the
male homeowner aged 65 with a house worth $50,000 would receive lifetime annuity payments of $2160 per year instead of $1440 per year (both at a contract interest rate of 12 per cent) if the lender's required rate of return dropped from 10.33 per cent to 8.28 per cent.
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

I. VIABILITY OF HOME EQUITY DISSAVINGS PLANS - SOME CONCLUSIONS

The advantages of home equity dissavings plans for elderly homeowners have been enumerated in Chapter 4. These plans would provide a supplement to current income by converting home equity into cash, thus addressing the financial problems of elderly homeowners. At the same time the plans would allow elderly homeowners to continue to live in their house, thus providing emotional security, plus a certain financial security against rent inflation. In addition, the options incorporating a lifetime annuity would protect elderly homeowners from the financial worry of exhausting their funds by living too long. It has been shown that in purely mathematical terms all three proposed dissavings options are workable. The question then becomes whether the perceived difficulties concerning the dissavings plans are serious enough to make implementation of these plans infeasible.

None of the difficulties likely to be perceived by senior citizens regarding the dissavings plans appear to raise an insurmountable barrier to implementation. Some of the difficulties, such as problems regarding supplementary income, turn out not to be problems at all. Many other difficulties, such as fear of dying too soon to get their money's worth out of the plans, can be allayed by recommending one or two particular options above the others - in this case a nonrepayable loan or sales-leaseback agreement instead of a split equity housing annuity.
Other difficulties such as disinclination to dissave in any form, desire to leave an inheritance, and dislike of losing money through high interest charges would tend to make the proposed dissavings plans unattractive, probably to a majority of elderly homeowners. However, these plans were not proposed as a panacea for all elderly homeowners. Only those who wished to participate in a dissavings plan would do so - it would in no sense be obligatory. Implementing a dissavings plan would provide a valuable function even if only a small percentage of elderly homeowners took advantage of it.

The proposed plans can be implemented on a small scale. They do not require participation by a majority of elderly homeowners in order to make them feasible. Also, it should be noted that even if only a small percentage of elderly homeowners chose to participate in a home equity dissavings plan, the absolute number would still be significant.

The difficulties regarding home equity dissavings plans perceived by potential sponsors indicate that government involvement would be necessary in implementing these plans. The government would have to demonstrate the feasibility of these plans and provide certain financial guarantees before private financial institutions would be willing to undertake these schemes. Many of the difficulties perceived by the financial institutions indicate their conservative attitude towards

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1 These plans would be much more attractive to elderly homeowners if interest rates fell because they would then pay less for money received from a dissavings plan, and would also receive less interest from selling their house and investing the money. This raises the interesting question of what interest rates will do in the future on a long-term basis. Unfortunately no one seems to have a definitive prediction on this matter.
any new idea and their aversion to risk-taking rather than indicating anything intrinsically unviable about the concept of dissavings plans. Thus with suitable government involvement, the plans should be capable of implementation.

Difficulties perceived by planners and policy-makers do not make dissavings plans undesirable. The difficulties regarding health problems and underutilization of the housing stock are regarded as being based on faulty or limited perceptions of the situation. The difficulty regarding the deterioration of the housing stock was shown to be largely solvable by providing financial incentives for maintenance or by assigning responsibility for maintenance to the investor.

Thus there would be some problems and costs in setting up a dissavings program, but none of them appears insurmountable. It is judged that the benefits to elderly homeowners outweigh the difficulties, and that government should proceed with implementation of a dissavings program.

II. HOW MANY TYPES OF DISSAVINGS PLANS TO SET UP

Given the decision to proceed with a dissavings program, the question arises as to how many of the dissavings options proposed in Chapter 4 to make available and which options are preferable. Table 18 summarizes the main objections raised to dissavings plans by senior citizens, potential sponsors, and planners and policy-makers, as discussed in Chapter 4. The table presents a rough judgement of how
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each of the dissavings options would rate in terms of each of the objec-
tions. In applicable cases, a rating is given to an option both in
terms of how it would rate without any government involvement and how
it would rate with appropriate government involvement. It can be
seen from the table that each of the dissavings options has a number
of comparative drawbacks and advantages, as discussed in Chapter 4,
and each would be appealing to different types of people. No one
option emerges as a clear-cut "winner". The overall relative
attractiveness of various options depends entirely on what weighting
one attaches to the various objections in the chart.

It is the recommendation of this thesis that all three of the
main dissavings options be made available precisely because they
have different strengths and weaknesses, making each of them attrac-
tive to different types of elderly homeowners depending on what they
regard as important. The sales-leaseback option should be fairly
easy to set up. The split equity housing annuity and the nonrepayable
loan would require more groundwork, but are not that conceptually
difficult. It should be noted that implementing the three plans
would not require three times the resources of setting up one plan
because many of the initial problems, such as estimating a suitable
rate of property value appreciation, are common to two or three of
the plans. Thus when these problems were met for one option, they
would actually be met for two or three options.

If the government is only willing to implement one dissavings
option, the option they choose would depend entirely on their criterion.
Government policy-makers could use Table 18 as a guide for choice-making. However, as pointed out above, the table does not give the correct answer - the choice depends on the weighting put on various factors. For example, if the government is extremely worried about deterioration of the housing stock they would likely choose to implement the sales-leaseback agreement option. If policy-makers are highly sensitive to possible public uproar over the government or private financial institutions acquiring title to elderly persons' homes, they would likely choose the nonrepayable loan option. If they desire above all to give elderly homeowners the highest income increment on an on-going basis plus assured lifetime tenure of their house they would likely choose the split equity housing annuity plan.

III. IMPLEMENTATION - INSTITUTIONAL ARRANGEMENTS FOR OFFERING THE DISSAVINGS PLANS

The purpose of this thesis is not to recommend the suitable institution to run the dissavings program. In the context of planning, this thesis concentrates more on recommendations regarding government policy and role in implementation. What financial institution will run the program is more of a technical issue, requiring further research. However, it is assumed that the institutions for whom the program is most suitable and advantageous will pick up on it, once the government has demonstrated its feasibility. Which institutions these turn out to be is not crucial. Nevertheless, this section will point out the functions which must be performed in order to run the
dissavings program, and will attempt to point out likely financial institutions on the basis of these necessary functions. The issue of whether the government should be the principal contractor on an on-going basis is also dealt with.

The institution offering the dissavings program must perform three main functions:

1) Real Estate Functions: The institution must appraise properties, provide for their maintenance, and in the case of sales-leaseback agreements and split equity housing annuities, market them after they have been vacated. Property appraisals and the marketing of acquired properties require knowledge of local housing markets and participation with local institutions that are involved in property transfers.

2) Provision of Annuities: Under the split equity housing annuity and the nonrepayable loans options, the institution must provide the elderly homeowner with an annuity. Since this function could be subcontracted to insurance companies, it is not the most strategic in determining the best institutional structure.

3) Long-Term Investment: The investor under a dissavings plan makes a long-term commitment of funds that is broadly similar to that involved in an ordinary mortgage. Thus, the expected life of a 30 year mortgage, and of a split equity purchased from or a nonrepayable loan made to a person 70 years of age
who retains occupancy until death, is about 12 to 15 years in both cases (Guttentag, 1975, p. 20).

The institutions capable of performing these functions are in existence. One possibility for running a dissavings program is life insurance companies. These companies are long-term investors, have a large pool of capital and have expertise in annuities. However, few have local real estate offices; they acquire their residential real estate loans from agents, usually mortgage companies. It would not, however, be impossible for life insurance companies to expand their mortgage department into a real estate department.

A second possibility for running a dissavings program is trust companies. Trust companies have no expertise in annuities, but this function could be subcontracted to insurance companies. Among their other functions, trust companies manage estates, administer trusts and wills, and act as trustees of pension funds. Thus they have a large pool of capital available for long-term investment. They also have expertise in residential real estate as long-term mortgage lenders. The larger trust companies have real estate departments or real estate holding companies. Thus a home equity dissavings program could possibly be very attractive to the larger trust companies (interview, T. Cully; interview, T. Ripley).

The nonrepayable loan option could appeal to a broader range of investors. Since title to the elderly homeowner's property is not taken, the investor could be a commercial bank, mortgage company, credit union or any other institution authorized to make residential
Results from the 1974 New York survey of elderly homeowners indicate that private administration of a dissavings program would be likely to receive favourable public support, although this support would obviously be enhanced through some degree of government regulation (Daniels, 1975, p. 58).

Another option is for the government to act as the prime contractor for dissavings plans on an on-going basis. The Federal Government could offer a dissavings program through CMHC, or a new non-profit agency could be established for that purpose. For instance, Chen made the judgement that a non-profit corporation with explicit government backing would be an ideal financial vehicle for a split equity housing annuity plan (letter from Chen to Manley, 1974). A CMHC employee expressed the opinion that private lending institutions and pension funds would not be interested in a dissavings program, and that some kind of national fund should be established (memo from Campbell to MacPherson, 1974). The initial appeal of this approach is the argument that the government could employ a relatively low required rate of return (just high enough to earn its borrowing rate plus a margin for administrative costs) and thereby make more generous financial benefits available to elderly homeowners than could private institutions. However, the direct provision of a dissavings program by the government would require development of an extensive and costly administrative apparatus to perform functions that existing private financial institutions are well equipped to handle (Guttentag,
1975, p. 49). Provision of the program directly by the Federal Government would also involve it in some highly controversial and politically-charged issues - such as how and to whom and for what price to market homes acquired under the program.

Thus it is recommended that the government not become the principal contractor for the dissavings program. The results of this thesis indicate that private institutions should be willing to undertake a dissavings program, if the government performs an appropriate role. The thesis now turns to a closer examination of that role.

IV. IMPLEMENTATION - GOVERNMENT ROLE

A. Choice of General Government Role for the Early Stages of the Program

Since a home equity dissavings program for elderly homeowners has not spontaneously appeared in the private financial market although it appears to be a feasible idea, the need for some facilitating action on the part of government is indicated. There are a number of reasons for initial government involvement in such a program. Firstly, potential users (elderly homeowners) will have more confidence in the program if it has government involvement. This confidence is an important factor to such a new program. Secondly, it is doubtful whether private financial institutions will independently underwrite such a program because of the on-going risks involved, and will likely demand certain guarantees from the government. Thirdly, as a new venture, the dissavings program will require some experimental work to arrive at suitable interest rates,
property value appreciation rates, etc. Private financial institutions are adverse to this type of uncertainty (Pennance, et al., 1976, p. 123).

Given the necessity of government involvement, the government has basically two choices:

1) The Federal Government through CMHC could set up and actually run the program initially, working out the problems and demonstrating the program's viability to private financial institutions. Once the program is established and running smoothly, the government could turn the operation of the program over to private financial institutions.

2) CMHC could do some of the initial groundwork for the program, such as market research, publicity, and development of certain operating procedures, and after that could simply act as guarantor, ensuring a certain net yield to financial institutions while the details of the program are being adjusted and the inevitable initial problems solved.

This second approach is favoured over the first approach for the same basic reasons that the Federal Government was not recommended as the principal contractor on an on-going basis for the dissavings program. If the government were to set up and run the program even initially, it would have to develop a costly and extensive administrative apparatus to perform functions which existing private financial institutions are already providing. This is considered to
be an inefficient use of resources, and should be avoided if at all possible.

Some aspects of the government's role under the second approach are now outlined.

B. Research and Preparation Stage.

1. Conducting Market Research of Potential users

The first step which the government should perform is to conduct market research of potential users of the program.

The literature on surveys regarding reactions of elderly homeowners to dissavings plans is American and in addition only tests reactions to a split equity housing annuity plan. Thus for purposes of estimating resources required for such a program it would be important to attempt to gauge the magnitude of demand for such a program on the Canadian scene. It would also be important to determine the relative attractiveness of the three dissavings options to elderly homeowners, especially if the government makes the decision to only implement one option. Numerical examples should be worked out in greater detail based on different combinations of property values, rates of appreciation, interest rates and age of homeowners. Then feedback should be obtained from senior citizens based on specific examples of how the plans would affect them personally. It would be especially important to determine how the attractiveness of dissavings plans varies according to changing interest rates, since high interest rates are likely to be a major reason for disinterest by elderly
Two main questions to be answered are:

1) At various interest rates what proportion of elderly homeowners desiring additional income would value staying in their present house enough to take advantage of a home equity dissavings plan instead of selling their house, moving out and consuming the interest from their invested money?

2) At various interest rates what proportion of elderly homeowners intending to stay in their house would desire additional income enough to take advantage of a home equity dissavings plan involving them in interest charges, instead of staying in their house without a dissavings plan, leaving their home equity intact, incurring no interest charges and foregoing a potentially higher level of current consumption?

2. Negotiating with Potential Sponsors

The government should initiate more detailed and systematic dialogue with private financial institutions in order to negotiate the terms of government involvement under which financial institutions would be willing to participate in a dissavings program. Topics for negotiation would include: responsibility for basic analytical and actuarial work for the plans; guarantees of a certain net yield to investors especially during initial stages of the program; problems of high administrative costs; the supply of front end capital for starting up the program; the problem of interest rate risk; and the
need for property value insurance and lease insurance.

The proposed program is so complex and has so many ramifications that financial institutions and government would likely have to invest a considerable amount of time and effort into researching it before an agreement could be hammered out. Until an agreement has been reached between the government and financial institutions regarding these crucial matters, it is not possible to present a detailed outline of what the government's role in relation to the financial institutions will be, or of what the public cost of involvement in a dissavings program would be.

3. Investigating Legal Problems

The government will have to investigate and effect necessary changes in federal and provincial legislation to remove any legal barriers which would prevent financial institutions from offering a dissavings program. It has been beyond the scope of this thesis to investigate legal problems. However, a few possible areas of investigation can be listed. The acts governing banks, trust companies, mortgage companies, credit unions, real estate companies and life insurance companies should be examined to see if there are any impediments to these institutions offering a dissavings program. Statutory limitations on the loan-to-value ratio on loans secured by residential properties should be examined, since the ratio on nonrepayable loans will inevitably rise to 100 per cent and beyond in cases of unusual longevity.
Statutes dealing with interest rate limits should also be examined, because under nonrepayable loans high contract interest rates may be quoted in order to make it possible to pay relatively large annuities. As explained in Chapter 4, the purpose of quoting high contract interest rates is not to exploit the borrower and generate an excessive net yield to the lender, but rather to generate the additional funds needed to offset the larger losses that large annuities involve (Guttentag, 1975, pp. 44-45). Other possible areas of legal investigation include the Income Tax Act, the Borrowers and Depositors Protection Act, and a precedent from the House of Lords, 1901, dealing with "clogging up the equity of redemption".

4. Establishing Consumer Eligibility Criteria

The government will also have to decide whether any age, income or home equity limitations should be placed on homeowners applying to participate in a home equity dissavings program. It is argued here that such limitations are not required.

Minimum age limits do not need to be set on the program, since it would tend to be self-limiting for a number of reasons. Firstly, non-retired persons have generally higher current incomes than retired persons and thus are less in need of supplementing their incomes through a dissavings plan. Secondly, younger age groups are usually still in the process of saving, and thus a dissavings plan would not be relevant to them. Thirdly, payments to non-elderly homeowners under a dissavings plan would be low because of their longer life
expectancy and their lower level of home equity. Interest charges to younger homeowners would mount up over the years to an excessive amount. Thus it is deemed preferable to let these self-limiting mechanisms operate rather than to set a rigid age limit under which homeowners are ineligible for a dissavings scheme.

The program does not have to be limited to homeowners who own their house mortgage-free, since benefits to the homeowner are based on net home equity. The investor would pay off the remaining mortgage when entering into the sales or loan agreement, thereby ending the elderly homeowner's monthly mortgage payments.

It is also felt that the dissavings program should not be limited to low income elderly homeowners, given the self-financing nature of the program. Since the program is basically not a subsidy, but is designed to unlock the elderly person's own assets, any one should be free to take advantage of it, regardless of income. The program is not just intended for people whose necessary expenses are greater than their income, but also for people who want extra money for holidays or other large expenditures. Elderly homeowners should be given the freedom to decide how to use their own assets.

If the Provincial Government decides to subsidize interest rates for the dissavings plan, as discussed later in this chapter, then the subsidies could be available on a sliding basis geared to income of the recipients and the amount of their home equity.
5. Undertaking an Educational Program

The suggestion to spend one's home equity while continuing to live in the house is a new idea outside the realm of conventional thinking. There is a general tendency among people, especially among the elderly, to show resistance to anything new, particularly if it involves their finances (Chen, 1970, p. 14; 1973, p. 32). Thus an educational program presenting the logic of dissaving in old age would be absolutely crucial to acceptance of the plan by elderly homeowners.

Because of the complexity of the dissavings program, a careful educational effort would also be required in order to help elderly homeowners grasp the nature of the proposed plans and to overcome potential misunderstandings. Potential participants should be thoroughly informed of the benefits and obligations which the plans entail, so that they can weigh the advantages against the disadvantages for their particular situation. They should be carefully informed of the implications which each of the dissavings plans would have over time for their income flow and equity position. This educational effort would be a major variable in the success of the program.

Proper information disseminated by the government would also help allay fears on the part of elderly homeowners that financial institutions were trying to swindle them and make huge profits. The 1970 Los Angeles survey of elderly homeowners found that 12.1 percent of the respondents were disinterested in a split equity dissavings plan because they felt it was a fraudulent scheme and that the
sponsoring institution would be making a lot of profit (Chen, 1973, p. 14). Thus it would be essential to demonstrate to elderly homeowners that financial institutions were only making a reasonable rate of return on their investment.

Educational programs and marketing efforts on the part of government would naturally be reinforced by the promotional efforts of all the investors offering the program.

6. Doing Basic Analytical and Actuarial Work

The degree of Federal Government involvement in the development of operating procedures for the new program and in undertaking some of the basic analytical and actuarial work for the program would be a result of negotiations between the government and interested financial institutions. A certain degree of government involvement in this area could result in greater efficiency, since each investor offering the program would then not have to replicate the same basic work. The government could equip any financial institution to run the program by providing it, for example, with the program description, marketing materials, and a computer program for determining the array of terms which the investor could offer to elderly homeowners.

C. Government Role Toward Financial Institutions During Initial Stages of Operation

There will be many unknown factors and risks to investors in the initial stages of operating a dissavings program. For example, as explained in Chapter 4, investors would not know initially exactly
what mortality rate assumptions to use. They would also have difficulty accurately predicting administrative costs as well as the magnitude of on-going risks and thus would not know what interest rate to charge in order to ensure their required rate of return.

Thus it is probable that stemming from negotiations between the government and financial institutions, that the Federal Government would have to ensure a certain net yield to financial institutions undertaking the dissavings program during the period when initial problems are being encountered and necessary adjustments made.

In addition, because of the high front end capital costs involved in starting up a dissavings program, it is also possible that the government may have to make front end loan funds available to financial institutions willing to be involved in setting up the program. This would depend upon the capital position of interested financial institutions. Even if an initial government loan was required, it is anticipated that it would be repaid with interest within a reasonably short period of years as turnover in houses and repayment of loans to elderly homeowners started to occur.

D. On-going Government Role Toward Financial Institutions

1. Minimizing Risks to the Investor

As explained in Chapter 4, there are three main risks to the investor involved in running a dissavings program which would not disappear once the program became established: interest rate risk, unpredictability of property value changes; and default on rent
payments. Specific government action to minimize risks to the lender would stem out of negotiations between the Federal Government and interested financial institutions.

Possibly, the government would have to subsidize financial institutions for a certain proportion of the losses resulting from interest rate increases, since these increases would result in much greater losses to investors under home equity dissavings plans than under ordinary variable rate mortgage loans. This subsidy might take the form of an on-going government guarantee of a certain net yield to the lender.

To minimize the risks of property value depreciation due to economic conditions, neighbourhood changes, or undermaintenance, CMHC could underwrite a non-profit insurance plan guaranteeing the value of properties taken into the program over their economic life. CMHC could also underwrite a lease insurance plan to help guard the investors against default on rent payments under a sales-leaseback agreement. Such government involvement in underwriting insurance plans is not unprecedented. CMHC established a Mortgage Insurance Fund to insure NHA approved lenders against loss on the mortgage loans they make. Government offers of these insurance plans should be contingent on a strongly expressed demand by financial institutions.

2. Regulatory Function

The Federal Government should also, on an on-going basis
supervise and regulate the operation of the dissavings program by private financial institutions, in order to safeguard the interests of participating elderly homeowners. In exchange for its financial support, the government should impose certain conditions on financial institutions.

For example, appraisal of house values should be supervised by government. Split equity housing annuity arrangements that pay a variable annuity based on the periodically reappraised market value of individual properties should also be regulated to guarantee the integrity of the reappraisal function. Contracts between investors and elderly homeowners should be at least partly standardized in order to eliminate the possibility of "small-print abuse," reduce overall information costs to elderly homeowners and make it easier to compare one offer with another, thus generating a more competitive market structure (Guttentag, 1975, pp. 19, 50). The need for standardization would be particularly acute in the case of split equity housing annuity contracts, which would be very complicated. In the case of nonrepayable loans, the government should require lenders to provide an elderly borrower with a schedule showing the exact pattern of her indebtedness over a period of perhaps twice her expected life.

E. Subsidization of Interest Rates

Depending on how valuable the Provincial Government judges a home equity dissavings program to be, it would have the option, as part
of its overall housing program, of subsidizing or not subsidizing the market interest rate for elderly homeowners. For example, the government could subsidize the interest rate for the dissavings plans to say 8 per cent (as they are presently doing under the Real Property Tax Deferment Act). This would likely make the program attractive to a much larger number of elderly homeowners by increasing the benefits they receive.

A very strong case can be made that such a subsidy would yield a very high social rate of return. The economic status of the aged has become a matter of social and political concern. This is bound to result in the development of new programs to aid the elderly and/or increased levels of support channeled through existing programs (Guttentag, 1975, p. 48). Compared to other devices for aiding the elderly, public investment in home equity dissavings plans will have a very substantial leverage effect, because these plans unlock the elderly homeowner's own resources to his use. Thus it is recommended that the Provincial Government subsidize interest rates on dissavings plans so that the effective interest rate to elderly homeowners under a sales-leaseback agreement or a split equity housing annuity plan is 8 per cent. The procedure for nonrepayable loans would be a bit more complex, because that plan is set up so that different interest rates accompany different sizes of annuities, with all combinations providing the same net yield to the lender. Thus the government could subsidize elderly homeowners to the extent that they could be offered the range of contract interest rate-annuity size combinations
consistent with an 8 per cent yield to the lender.

Although, as explained in Chapter 3, the Home Owner Grant is deemed to be an inappropriate policy, political realities are such that it is likely infeasible to discontinue the grant. Once a program is started, it is politically difficult to end it, unless it is replaced by an even more generous program. However, it is recommended that elderly homeowners be given the choice of either receiving the Home Owner Grant or a subsidized interest rate on a dissavings plan. This choice should be accompanied by a strong educational program stressing to elderly homeowners the benefits to be derived from participating in a dissavings program. Thus, hopefully, the pressure for further government subsidies would be reduced.

F. Need to Simultaneously Pursue Other Programs

As stressed in Chapter 4, implementation of a home equity dissavings program would result in inefficient utilization of the housing stock unless accompanied by other policies designed to broaden housing options available to elderly homeowners in single family neighbourhoods. Thus a dissavings program should not be introduced in isolation; it should be one facet of a comprehensive housing policy designed to give people more opportunities to exercise housing preferences.

Thus Provincial and Federal Governments should be investigating ways of introducing more flexibility in government solutions and funding. Municipal governments should be re-examining zoning
standards with an eye to allowing mixed rental and ownership accom-
mmodation at low, medium, and high density in various areas of the
city. All possible constraints on the adaption of old and the produc-
tion of new housing should be removed. The nature and purpose of
occupancy restrictions, building codes and minimum lot and unit
sizes should also be re-examined. To the extent that they function
to constrain the operation and flexibility of real property markets
in meeting consumer demand, they should be changed (Pennance, et al.,
1976, pp. xv, 17). Further research is needed in these areas.

Thus other housing policies working to widen housing options
should be implemented along with a dissavings program to ensure that
only those elderly homeowners who really wanted to remain in their
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