An Chomhairle Pinsean
The Pensions Council

Pensions Council observations arising from the ESRI report: *Future trends in housing tenure and the adequacy of retirement income*

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Background

The Pensions Council funded research by the ESRI under a Research Programme on 'Housing and Pensions'. This research was presented in June 2022 in the ESRI report entitled "Future trends in housing tenure and the adequacy of retirement income"[1].

This paper considers the ESRI findings and draws out some key observations that are relevant to the pensions challenge, defined for the purpose of this paper as enabling individuals to maintain a reasonable standard of living after retirement.

Post retirement income and expenditure

The Government's report "A Roadmap for Pensions Reform"[2] stated that *"Private savings arrangements …generally aim to secure a payment level in retirement that, when combined with the State pension, replaces a sufficient proportion (e.g. 50% – 60%) of an individual's pre-retirement earnings "*.

This level of replacement income is often quoted by commentators. It assumes that a person may not need as much income in retirement. This could be because their expenses reduce, or they are no longer saving.

Reasons for reduced expenses may include a reduction in (or elimination of) employment-related expenses such as commuting costs, the cost to purchase work clothes, lunches, etc. In reality, these costs are likely to be a reasonably small proportion of a person's overall outgoings. However, a very large expenditure that almost always falls away at retirement for homeowners is the mortgage payment: in Ireland, the maximum mortgage term is to age 70, although lenders may impose a shorter term, for example to tie in with a person's employment contract (such as age 65).

Current home ownership/rental rates for older people

In its report, the ESRI estimated[3] that currently, around **90 per cent of those in or approaching retirement age (65+) own their own home.** The vast majority own their home outright, with fewer than 3 per cent of this age group still making mortgage payments.

The ESRI also identified that most of those currently aged 65+ who are renting do so from a local authority or voluntary body, and have low and relatively stable housing costs in retirement. **Fewer than 2 per cent of people age 65+ live in the private rental sector without supports.**

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[1] https://www.esri.ie/system/files/publications/RS143.pdf
[2] https://assets.gov.ie/10968/9740541c18cc4eaf92554ff158800c6f.pdf
[3] Using the Survey on Income and Living Conditions (SILC) 2018 and 2019

Projected home ownership/rental rates for older people

The ESRI carried out a detailed analysis of projected future home ownership rates. It looked at people in various age categories and found that the younger a person is, the less likely they are to own a home by the time they get to retirement. This is shown in Table 1 below:

Age group	Expected home ownership % by the time they reach retirement (rounded)
25-34	40%
35-44	65%
45-54	79%
55-64	81%
65+	90%

Table 1: ESRI simulated home ownership rates at retirement age by age cohort. Information taken from table 3.2, scenario 1 (i.e. unadjusted) in the ESRI report.

While the ESRI observed that there is significant uncertainty with the youngest age group (25-34), it did place a much stronger reliance on its results for the 35-44 age group. Based on 2022 mortgage rules (10% deposit requirement, loan to income cap of 3.5x[4] and affordability test), the ESRI predicted that the home ownership rate for the 35-44 age group will be 65% by the time they get to retirement. **This is 25 percentage points less than current retirees.**

Implications from a pensions perspective

There are important potential implications at both an individual and macro level.

Individual level: Where a person retires and they are renting or if their mortgage is not paid off, this very significant cost will continue. By way of example, the ESRI reported that private renters aged 45-54 not in receipt of housing supports are on average paying 27 per cent of their incomes on rent. If this continues into retirement, their income needs will be significantly higher compared to someone who has a "paid for house".

Rent prices can rise over time, making it harder for retirees on fixed incomes to afford housing. By owning a home, retirees can avoid these rising costs.

Macro level: If retirees cannot afford their rent, the State may have to step in to provide housing supports, such as access to local authority housing or Housing Assistance Payment (HAP). The HAP rates range from €180 per month (adult in shared accommodation, Longford) to €1,300 per month (family, Dublin, and surrounding areas)[5]

[4] This is due to change in January 2023 from 3.5x to 4x, following a recent Central Bank of Ireland announcement
[5] https://www.citizensinformation.ie/en/housing/renting_a_home/housing_assistance_payment.html#l5e5ea

Any housing supports available to older people would be in addition to the cost to meet the State Pension. There has already been significant commentary and discussion on the rising cost of the State Pension. Analysis from the Department of Finance found that, as a result of the ageing population, expenditure on State Pensions is projected to significantly increase over time – more than doubling from 3.8 per cent of GNI* in 2019 to 7.9 per cent in 2050, and increasing further to 9.3 per cent of GNI* by 2070[6].

Possible solutions

The ESRI set out a range of suggestions to address the challenge: it suggested improving incomes for older households (for example by increasing the State Pension, introducing targeted supports or directly intervening with a household supplement) and/or supporting people earlier during their employment to build up more retirement savings to meet the higher costs in retirement.

While a significantly increased number of older people may be expected to be eligible for HAP, putting aside the cost to the Exchequer, according to the ESRI there could be significant challenges associated with an increased reliance on the private rental sector to house those in receipt of housing supports.

The ESRI also suggested policy interventions earlier in the life cycle, such as increasing the direct provision of social housing or cost-rental schemes or lowering the rate of rent inflation in cost-rent properties below the rate of income increases. The ESRI proposed a suite of options and a range of policy levers policies but stated "***it is unlikely the State will be able to fully carry the cost burden for the challenge of higher housing costs in retirement*.**"

Pensions Council observations

If significant policy interventions are not implemented, in the future, many more older people will need:

1. More retirement income to meet anticipated higher costs in retirement, and/or
2. Some way to lower costs in retirement, for example, by receiving a housing subsidy from the State, or support to help them purchase a home before they reach retirement.

[6] Summary can be accessed here: https://assets.gov.ie/200479/05ab1b26-da17-4e86-b1e7-653de0d4791b.pdf

Can people save extra for their retirement?

The Pensions Council considered the option to save more for retirement. This is a significant challenge. According to the Pensions Authority calculator[7], to achieve an income of 60% salary from age of 66, a person starting to save at age 30 would need to save 19.6% of their salary every year, assuming a starting salary of €40k pa. This increases to almost 33% of salary for someone on €80k pa.

The Council concluded that it may be unrealistic to suggest that people should be trying to save more, particularly given the increasing cost of living and other competing draws on their income (education/care costs, rental costs, etc). Indeed, if a policy to provide housing supports to older people were to be introduced, consumers may choose not to save as much in order to benefit from these supports later in life.

What about reducing costs in retirement?

To achieve lower costs in retirement, the Council sought to understand how home ownership rates could be increased. It noted the following **key ESRI findings** for the two youngest age groups (ie 25-34 and 35-44):

1. **Changing the loan to income limits do not increase home ownership rates[8]**
2. **Allowing an equity (or down-payment) support of €20k for all households materially increases home ownership rates.**

By way of example, for the 35-44 age group even taking account of a knock-on impact on housing prices, home ownership at retirement age could be increased from 65% to 71% (figures rounded) if an equity support were to be made available to help consumers buy a home.

While the ESRI projections take account of knock-on price increases in its model, the Pensions Council recognises that it may not take account of other important and complex factors, such as housing supply. It is noted that any measure that increases housing demand, particularly in a supply constrained market, could lead to upward pressure on house prices. Any potential impact here would obviously depend on the prevalence of the scheme, number of people availing of it, size of drawdown etc. Hence, the design of any scheme should be considered carefully from the perspective of the short and longer term implications for the housing and pensions markets.

[7] https://www.pensionsauthority.ie/en/lifecycle/useful-resources/pension-calculator/?gclid=CjwKCAjwtp2bBhAGEiwAOZZTuHvmdUqFsNpA0htotJju1svuXB3ANRSIlCWqiwcA38uuzla3bUtKLxoCXsYQAvD_BwE , figures effective 3 April 2023
[8] Table 3.2 of the ESRI report

Conclusion

Based on current trends, home ownership rates amongst older people will be significantly lower in the future (40%-65%) than current rates (90%) and as a result, are likely to face higher housing costs. This is a pensions problem, because, where a person has higher housing costs in retirement (such as rent), they need a higher income to maintain the same standard of living than a person who has a "paid for house". If they don't have sufficient income, this could impact on living standards, or the State may have to step in.

The State is already facing the significant and increasing State Pension burden. This housing challenge is in addition to the State Pension.

Consumers could be encouraged to save more for retirement; however the Council concluded that it may be unrealistic to expect people to save more, particularly given the cost of living and other competing draws on their income (education/care costs, rental costs, etc).

Minimising costs in retirement is key to addressing the pensions problem, both from an individual and macro perspective. A significant expenditure is housing costs. If these can be reduced in later life, this will help retirees maintain their desired standard of living. The ESRI identified ways to increase home ownership. In particular, an equity (or down-payment) support of €20k materially increases home ownership rates. This could be investigated further by relevant Departments to ascertain if amendments to the Help to Buy scheme or the introduction of a further scheme could help reverse the current downward trend in home ownership rates while not increasing housing demand in a supply constrained market that could lead to upward pressure on house prices.

The Council is available to meet with officials and offers its help and assistance to discuss and support any initiatives that might arise.