

Research on the Realistic Dilemma and Optimization Path of the House-for-pension Model

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Abstract: Under the double pressure of accelerating population aging and expanding pension gap, house-based pension, as an innovative pension financial tool, has become an important exploration of supplementary pension security system. This paper analyzes the operation status quo of China's house-based pension pilot project, reveals the core contradictions it faces, such as lagging policies and regulations, low market acceptance, and insufficient risk control, and puts forward systematic solutions such as constructing a multi-dimensional policy support system, perfecting the market operation mechanism, and strengthening the risk prevention and control, so as to provide theoretical support for a sound multi-level pension security system.

Keywords: House-for-pension model, pension finance, pension industry.

1. Introduction

1.1. Background of the study

The process of population ageing in China is accelerating at an unprecedented rate, with far-reaching implications for all aspects of society and the economy. The data released by the National Bureau of Statistics clearly show the grim situation of population ageing in China. According to the seventh population census, 18.70% of the country's population is aged 60 and above, of which 13.50% is aged 65 and above. According to forecasts, by 2050, China's population aged 60 and above is expected to exceed 490 million. The growth of such a large-scale elderly population has brought enormous pressure to the social security system for the elderly, posing considerable challenges to the resource utilization and production patterns of society as a whole, and the contradiction between the demand for and the supply of resources for the elderly has become increasingly prominent.

At the same time, our pension security system is facing new challenges. The basic pension insurance replacement rate has continued to decline, having fallen to 45 per cent. The basic pension insurance replacement rate, however, is the ratio between the level of pension received by a worker upon retirement and the level of his or her pre-retirement salary and income, and it is an important indicator of the level of post-retirement living security for workers. A decrease in the replacement rate means that the standard of living after retirement will drop considerably compared with that before retirement, and it is difficult for the elderly to maintain their original quality of life by relying only on basic pension insurance. As the ageing rate continues to climb, the problem of balancing income and expenditure for old-age insurance is becoming more and more prominent, and in the future it may face the difficulty of outliving its income.

Changes in family structure have also further weakened the traditional function of old age care. Nowadays, the "421" family structure is becoming more and more common, that is, a couple needs to support four elderly people and raise one child at the same time. Under such a family structure, the younger generation is under heavy pressure from life and work, and is too distracted to provide the elderly with the full range of life care and spiritual comfort that they used to have

in the past.

In terms of family assets, according to the China Family Wealth Survey Report, the home ownership rate of China's urban residents exceeds 90%, with property accounting for as much as 70% of family assets. As one of the most important assets of families, the potential value of real estate in the field of retirement protection has begun to attract attention. How to revitalize this part of the asset and make it play a greater role in old-age protection has become a new idea to solve the current old-age dilemma.

1.2. Significance of the study

As a new financial product for the elderly, house-for-pension was first proposed around 2001, and is considered to have the dual effect of activating the real estate market and the financial market, and fully mobilizing the "housing asset pool" so as to alleviate the pressure on pension funds.

However, the aging degree of China has been deepening during the past two decades, the real estate market development from the continuous rise to the beginning of the cooling down in recent years, during this period of time to the house pension has not ushered in the development of a larger, only a small number of cities there are pilots, and did not promote the formation of a standardized system of regulations that can be operated to the house pension, at present, it is still a selective financial tool for the retirement of a specific minority group, did not show great It has not demonstrated great development potential and reliability. There are many problems of system, risk and demand that we should analyze and explore .

Nonetheless, housing for the elderly can still play a significant role in alleviating the status quo of "rich in real estate, poor in cash" and improving the financial situation of the elderly, and due to the change of the concept of old age in recent years, especially the change of the family management of the concept of childbirth, the future of the old age of single elderly groups living alone may be significantly increased to the form of housing. The forms of housing and aging in place can go hand in hand, and there is a possibility of joint development. The formalization of the right of abode in legal regulations has left a more tolerant institutional space for the development of house-for-pension, and if effective safeguards and incentives can be generated in terms of system and policy,

house-for-pension can still become a potential stock in the matrix of financial products for the elderly in the future .

2. Main Forms of China's Housing for The Elderly Model

At present, there are three main forms of housing for the elderly, and there are also some pilot cities for housing for the elderly to carry out the trial implementation and promulgation of the right of abode landing approach, this initiative is likely to bring a new form of housing for the elderly to provide security for the elderly through the real estate to provide the flexibility of the system.

2.1. Reverse Mortgage Pension Insurance for Housing

This is an innovative commercial pension insurance business that combines housing mortgage with lifelong pension annuity insurance. Since 2014, the former CIRC issued the "Guiding Opinions on Carrying Out Pilot Housing Reverse Mortgage Pension Insurance for the Elderly", and decided to implement the pilot scheme in four places, namely Beijing, Shanghai, Guangzhou and Wuhan, from July 2014 to June 2016. The form of implementation is as follows: the elderly mortgage their properties to the insurance company to continue to have the right to possess, utilize, gain and dispose of the houses with the consent of the mortgagee. The insurance company will continue to have the right to possess, use, gain and dispose of the house with the consent of the mortgagor, and will receive the pension according to the agreed conditions until the death of the elderly; after the death of the elderly, the insurance company will obtain the right to dispose of the mortgaged property, and the proceeds from the disposal will be used to pay for the expenses related to the old-age insurance in priority. This form requires the elderly to be 60 years old and above, and to own a separate property with full ownership rights. They can receive pension according to the agreement, so as to provide an additional financial security in their old age. This model is more mature abroad, and is still in the pilot exploration stage in China. In 2018, the former Banking and Insurance Regulatory Commission (BIRC) former BIRC issued the Notice on Expanding the Scope of the Development of Reverse Mortgage Pension Insurance for Elderly People's Homes, which formally expands reverse mortgage insurance to a nationwide scope.

2.2. Model of selling homes for pension

To put it simply, it means that "before the age of 60, people support houses, and after the age of 60, houses support people". Before the age of 60, people through savings deposits, mortgage loans and other forms of purchase of residential property, and pay off all the principal and interest of the house, to obtain all the property rights of residential property. To be 60 years old when retirement, the residential property rights will be sold, relying on the residual value of the proceeds of the sale of housing to maintain their old age. In addition, there is also a special form of intra-family home sales, that is, between parents and children within a family, parents will sell the property they own to their children when they are still alive in exchange for the money they need for their old age. By selling their homes for retirement, seniors can convert their fixed assets into cash and secure financial resources for their old age. At the same time, the property

exchange for the right to live in a retirement community is also an extension of the model of selling a home for retirement, whereby seniors sell their own homes and use the proceeds to move into a retirement community, enjoying professional senior care services and facilities, and enjoying a more comfortable and secure life in their old age.

2.3. Rental housing for the elderly model

Seniors sublet unused housing units and supplement their retirement living costs by collecting rent to generate cash flow . For example, if some elderly people's children are not around and there are extra rooms in their houses, they can rent out these vacant rooms to others, which does not affect their own living and increases their income. In addition, there is also the form of renting a room in a hospital for the elderly, the elderly will rent out their housing, they use the rent to live in a nursing home, and in the future, they will hand over the housing to their children for inheritance after they die . This model makes full use of the idle property resources, and without changing the ownership of the property, it provides a stable cash flow for the elderly and eases the economic pressure of old age. Moreover, the form of rental is flexible and diversified, and the elderly can choose suitable tenants and rental methods according to their own needs and the actual situation of the housing.

3. Analysis of Existing Problems and Causes

3.1. Inadequate legal system

3.1.1. Inadequate legal system

The property law is vague on the right of abode: although the property law mentions the right of abode, it lacks a clear definition of the specific details of its establishment, modification and extinction. For example, in practice, the understanding and implementation of the duration and scope of the right of abode varies from region to region, leading to uncertainty in the protection of the rights and interests of the elderly in the reverse mortgage business.

Lack of special provisions on reverse mortgages in the inheritance law: The current inheritance law does not have special provisions on reverse mortgages, which makes it easy for disputes to arise over the disposal of the property and inheritance of the estate of an elderly person who dies after participating in a reverse mortgage. For example, in some cases, the heirs are unaware of the reverse mortgage contract, and conflicts arise between them and financial institutions over the disposition of the property.

3.1.2. Insufficient government matching support

Lack of tax incentives (e.g., property tax relief): Currently, seniors participating in reverse mortgages do not enjoy relevant tax incentives, which increases their financial burden to a certain extent. Compared with some mature reverse mortgage markets in foreign countries, which give policies such as property tax relief to participants, China's lack of this aspect reduces the attractiveness of the market.

Insufficient incentives such as government guarantees: Due to the lack of government guarantees, financial institutions face higher risks when carrying out reverse mortgage business and are more cautious in promoting the business. For example, in some pilot areas, the lack of government credit endorsement has affected the amount and incentive of financial institutions to invest in reverse mortgage business.

Insufficient cross-sectoral coordination: Involving multiple

departments such as the Ministry of Housing and Construction, the CBIRC, and the Ministry of Civil Affairs (MCA), there is an intersection of powers and responsibilities: the reverse mortgage business involves a number of departments, with the Ministry of Housing and Construction being responsible for the management of real estate-related registrations, the CBIRC supervising the business of financial institutions, and the MCA focusing on the protection of the rights and interests of the elderly. However, there is currently a lack of effective coordination mechanisms between the various departments, and there are obstacles to information sharing and policy implementation. There are differences in the standards and requirements of the Ministry of Housing and Construction and the CBIRC for property appraisals, and when multiple interests are involved, opacity due to information gaps can occur, resulting in damage to the interests of the more vulnerable groups, especially the elderly.

3.2. Barriers to market functioning

3.2.1. Insufficient supply-side dynamics

Financial institutions are exposed to longevity risk: as life expectancy increases per capita, financial institutions face greater financial pressures as the period over which they are required to make pension payments grows. For example, if the payment period and amount are set initially, the cost to financial institutions will increase significantly when the life expectancy of the elderly exceeds the expected life expectancy, which has become one of the concerns of financial institutions in conducting business. Housing for the elderly is not a standardized mode of operation, but due to the attributes of the pension industry itself and the interests of the elderly characteristics, financial institutions need to continue to pay the elderly for a long period of time, while the recovery of the house after the ultra-long term, for the financial institutions of the early stage of the investment is huge but the benefits of the recovery of the slow, which has become a major obstacle to the financial institutions to participate in the field of important reasons.

Risk of fluctuation in property valuation: Fluctuation in house prices affects the value of property mortgages, and when house prices fall, financial institutions are exposed to the risk of the value of collateral shrinking. Especially in the current situation where house prices continue to fall, financial institutions are more cautious about reverse mortgage business, worrying that the collateral cannot cover the principal and interest of the loan. And in order to carry out the reverse mortgage business, financial institutions need to invest a lot of human and material resources to participate in the evaluation, supervision.

3.2.2. Low demand-side acceptance

Most elderly people are reluctant to dispose of their properties through reverse mortgages due to the traditional concepts of "raising children to protect them from old age" and "passing on property to their children". In the past, most elderly people believed that it was only right to leave their properties to their children, and that participating in reverse mortgages would jeopardize the family legacy. At the same time, there is another form of traditional cultural hindrance in the children's generation, where failure to take care of the elderly is considered "unfilial", as well as opposition to parents who do not leave their property to themselves.

Due to the design defects of the reverse mortgage products themselves, the monthly payments received by the elderly from insurance companies or financial institutions do not

fully meet the living needs of the elderly, resulting in the elderly preferring to rent or sell their homes to receive immediate lump-sum payments.

3.3. Technical risks

Actuarial models are lagging behind; at present, China lacks localized mortality tables suited to national conditions, and actuarial models mostly refer to foreign data, leading to inaccurate calculation results. In the reverse mortgage business, actuarial models are used to determine the amount and duration of pension benefits, and inaccurate models expose financial institutions to pricing risks.

Difficulty in property disposal, when financial institutions need to dispose of mortgaged properties, they face problems such as the long cycle of judicial auctions. Judicial auctions take a long time from the start of the auction to the final transaction, during which the cost of maintaining the property increases, and there is a risk of unsuccessful auctions, which affects the return of funds to financial institutions.

Elderly people have lower financial literacy and limited understanding of reverse mortgage business. On the one hand, it is difficult for financial institutions to clearly explain complex business terms to older persons; on the other hand, older persons may overlook potential risks when signing contracts due to a lack of information, leading to communication barriers and a crisis of trust between the two parties in the conduct of the business.

4. Optimizing Path Construction

4.1. Institutional Innovation Dimension

4.1.1. Introducing the Regulation on Reverse Mortgage Loans for Housing.

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At present, China's reverse mortgage business lacks specialized legal norms, leading to many uncertainties in the process of business development. Referring to mature foreign experiences, such as the U.S. Home Equity Conversion Mortgage Act, China should introduce the Regulations on the Administration of Reverse Mortgage Loans for Housing as soon as possible. Clearly stipulate the definition of reverse mortgage, the rights and obligations of participating subjects, business process standardization, risk-sharing mechanism and other contents, to provide solid legal protection for business development. Clearly define the responsibilities of financial institutions and the elderly in the process of contract fulfillment, so as to avoid having nothing to rely on in the event of disputes.

4.1.2. Establishment of a dedicated risk compensation fund.

The establishment of a specialized risk compensation fund is of great significance. The establishment of a risk compensation fund in the field of production and investment can help enterprises to worry about their worries and increase their motivation to participate in investment and production. Reverse mortgages can also be set up, and the initial size of the fund can be determined according to the forecast of future aging and the development of the aging industry. Jointly funded by the government, financial institutions and other parties. When financial institutions suffer losses due to unforeseen risks in the reverse mortgage business, they can receive a certain percentage of compensation from the fund,

thus reducing the risk concerns of the financial institutions and increasing their motivation to carry out the business.

4.1.3. Pilot property tax deferral incentives.

Currently, older persons participating in reverse mortgages are still liable for property taxes, which to some extent undermines the attractiveness of the business. A deferred property tax incentive policy can be piloted in some regions, whereby older persons do not need to pay property tax immediately during the period of participation in reverse mortgage loans, but pay it together when the property is finally disposed of. This policy could reduce the financial burden of older persons, increase the attractiveness of reverse mortgage products and promote business development.

4.2. Develop differentiated products

4.2.1. "Fixed + Floating" Income Combinations.

Traditional reverse mortgage products have a single mode of return, making it difficult to meet the needs of different elderly people. The development of "fixed + floating" income combination products will provide a stable cash flow for the elderly to meet their basic daily expenses, while the floating income portion can be linked to the property's value-added and the financial market's performance, so that the elderly can have the opportunity to share in the dividends brought about by the property's value-added or the market's income. For example, when the economic development of the region where the property is located is rapid and the price of the property rises, the elderly can receive a certain amount of additional floating income to improve their quality of life.

4.2.2. Room exchange care services

As the demand for health-care services for older persons grows with age, reverse mortgage products that exchange housing for services should be flexibly introduced to keep pace with the times. Elderly people can use part of their property interests to offset the cost of professional medical care services, and financial institutions can cooperate with high-quality medical care service organizations to provide comprehensive health care for the elderly. This model not only addresses the needs of the elderly for senior care services, but also innovates the form of reverse mortgage products and improves product competitiveness. This form can also be better integrated with home care, using the community as a platform to reduce communication costs between organizations and generate new business.

4.3. Risk prevention and control system

4.3.1. Longevity risk hedging

Establishment of an industry risk co-insurance body, in which a number of financial institutions jointly contribute to the formation of an industry risk co-insurance body, so that when a financial institution suffers a significant loss due to longevity risk, the co-insurance body can pay out in accordance with an agreed ratio. Through the model of the co-insurance body, risk sharing within the industry is realized, and the ability of financial institutions to withstand longevity risk is strengthened, avoiding the situation of separate institutions and improving the risk-resistant ability of the entire industry.

4.3.2. Establishment of dispute arbitration mechanisms

Setting up a professional financial mediation committee. The reverse mortgage business involves multiple fields of expertise, such as finance and real estate, and is prone to disputes. The establishment of a professional financial

mediation committee, whose members include legal experts, financial practitioners and real estate appraisers, provides professional and efficient mediation services for financial institutions and seniors. In the event of a dispute, the mediation committee can resolve the dispute in a fair and reasonable manner in accordance with relevant laws and regulations and industry norms, and safeguard the legitimate rights and interests of both parties.

A mandatory cooling-off period system has been introduced, whereby a mandatory cooling-off period of a certain number of days is set after the elderly have signed a reverse mortgage contract. During this period, seniors can fully understand the terms of the contract, consult with professionals and carefully consider whether to participate in the business. If, at the end of the cooling-off period, the elderly person still decides to sign the contract, the contract will come into effect; otherwise, the contract will be null and void, effectively avoiding potential risks and disputes arising from impulsive signing.

5. Conclusions and Outlook

This work was financially supported by xxx fund. The healthy development of the housing for the elderly model requires the construction of a three-dimensional framework of "government guidance, market operation and social coordination". Although the scope and effectiveness of the current pilot initiative is limited, it has brought practical experience for reference, and the problems exposed are conducive to the continuous improvement of laws and policies. Housing for the elderly combined with the current and social, economic and cultural conditions, is still a "blue ocean" full of development prospects, especially in recent years around the "right of abode" to start the discussion, in the future can be carried out through the development of institutional innovation and comprehensive reform, through legislation, product innovation, technology empowerment, and the development of a comprehensive reform. In the future, through the comprehensive reform of institutional innovation, legislation, product innovation, technological empowerment and cultural reshaping, we can gradually cultivate the formation of a certain scale of housing pension financial market that can satisfy the demand for housing for the elderly. In-depth discussion on how the relatively niche pension financial tools can be integrated into the pension financial market to solve the cost of human and material resources while maximizing the effect.

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