

The Feasibility Analysis of Constructing House-for-Pension Pattern with Chinese Characteristics

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Abstract

This paper is based on china's aging population and huge gaps in pension funds, proposes that House-for-Pension is an important supplementary form of social security. Firstly, this article reviews the implementation of the pilot cities and analyzes the reasons for the failure. Next, according to the questionnaire results of the "Preferences for House-for-Pension" of Chinese Residents, explains the current implementation. Then, introduces the successful case of the US HECM (The Home Equity Conversion Mortgage) pattern from two aspects: operational procedures and legal procedures. Combing with the development bottleneck situation and the successful experience of the US HECM pattern, analyzes the problems faced, such as lack of reasonable operating procedures, unsound legal supporting mechanisms, lack of favorable government support and supervision, unclear targets, small coverage, and insufficient concept popularity. Finally, from improving relevant laws and regulations, advocating government guarantees and supervision, carrying out multi-level product design, and increasing the promotion, the countermeasures and suggestions for building a House-for-Pension pattern with Chinese characteristics are proposed.

Keywords

House-for-Pension, Chinese Characteristics, US HECM Pattern, Legal Supervision.

1. The Concept of House-For-Pension

1.1. Basic Connotation

House-for-Pension is an old-age security method for the elderly. The elderly can mortgage, sell or lease their houses with complete property rights to financial institutions, the government or other qualified institutions designated by the government, so as to regularly or get a large amount of cash at once for living expenses in later years. At present, the current international House-for-Pension pattern is usually that the elderly mortgage their houses as real estate to financial institutions to obtain loans for pensions. The operation process and cash flow of this approach are just opposite to the prevailing housing mortgage loan model. So it is also called Housing Reverse Mortgage or Reverse Mortgage.

1.2. The Existing Schema

House-for-Pension security method was proposed mainly to solve the pension problem of those "with houses but no money". Therefore, the purpose of the implementation of each model is the same, but in the way of real estate rights processing and obtaining pensions, There are still big differences in operations such as whether the residence is relocated. When the author conducted a survey of Chinese residents' preference for "retire care with housing", it was found that people generally have concerns regarding the acceptance of property rights. Therefore, here we divide the existing model of "retire care with housing" into housing based on the

ownership of property rights. There are two types of transfer of property rights before death and death of property rights, with specific explanations.

1.2.1. The property Right is Transferred before Death

Sale and rent back. The elderly sell their property-owned houses to a designated agency, and obtain the sale money in one lump sum; and then rent back the houses for use through the agency.

Prepayment for the elderly by selling houses. The government or designated agencies help the elderly arrange for the sale of houses, and use all the sales income for the elderly to stay in nursing homes and daily expenses.

House-changing price difference pension. The government or designated agencies help the elderly sell public housing in a better location, and buy or lease a house in a slightly worse location. The price difference is used to increase daily income.

1.2.2. Death Transfer of Property Rights

Mortgage loan. The elderly still live in the original house after mortgaged their freely owned housing as real property to an institution, and obtain monthly or lump-sum loans from the institution for the elderly. If the elderly can pay off the loan with the help of their children before they die, continue Keep the property rights of the house, otherwise the agency has the right to auction the house after the old man passes away, and the remaining value after the loan is repaid can be used as an inheritance.

Insurance products. The elderly who sign an insurance contract with an insurance company can receive pensions from the insurance company every month or at a lump sum. The number of payments each time will be negotiated and determined based on the age and physical health of the elderly when they signed the insurance contract. Changes, the duration of receipt until the death of the elderly, the property rights of the house after the death of the elderly belong to the insurance company.

Renting to increase income for the elderly. The elderly entrust a qualified institution to rent out their houses, and the rent obtained is used to offset the expenses of the nursing home, and the remaining rent will be arranged by themselves.

Free house replacement. The elderly mortgage their house and sign an agreement with the designated nursing home at the notary office to live in an elderly apartment without paying all expenses for life. The property right of the housing will belong to the nursing home at the time of death.

1.3. The Meaning of Existence

Due to the historical problems left before the transition of the pension insurance system and the increasingly serious population aging phenomenon, China's pension reserve is facing a huge gap. According to statistics conducted by the Institute of Population and Human Resources of Tsinghua University, it is predicted that in the next five to ten years, there will be a gap of eight to ten trillion yuan in pensions in China. This is a very large number because of China's existing social security. The total fund is only more than two trillion yuan. Therefore, in order to let people have a sense of security in their future old age lives, it is urgent to solve the pension gap problem.

To allow the elderly to obtain adequate pensions, the best way is to establish a multi-level pension insurance market and find a multi-channel and reasonable pension insurance method. House-for-Pension exists as a supplementary old-age security method, which is suitable for people who own real estate but are short of cash in old age.

House-for-Pension has more promotion value and significance under the socialist system with Chinese characteristics. Buying a house has basically become the life-long goal of young people in our country. People use a large part of the money they earn to buy real estate and repay the

mortgage. Therefore, the house is the most valuable among most household assets in our country at present and in the future. The value part. When you are young, you run out of savings to provide a house, and you can also seek a sustenance through a housekeeper in old age.

2. House-for-Pension implementation status in China

2.1. The Relevant Policy

Our country's concept of House-for-Pension was first proposed by Meng Xiaosu, the chairman of Happiness Life Insurance Company in 1996, but there has been no progress since it was proposed. It was not until 2003 that Meng Xiaosu wrote the document "Establishing Life Insurance Services for Reverse Mortgage Loans" and submitted it to the State Council. After Premier Wen Jiabao's attention was paid to it, scholars from the Ministry of Construction, China Insurance Regulatory Commission, insurance companies, and other units begin to actively explore the reverse mortgage loan of household pension. Since 2005, Nanjing, Shanghai, Beijing, Guangzhou, Wuhan, Suzhou, Dalian, Hangzhou and other cities have carried out the practice of House-for-Pension, but the results have been minimal. During this period, only a few regulatory documents related to the concept of House-for-Pension and formally gave guidance from the policy level, including the "State Council's Several Opinions on Accelerating the Development of the Elderly Service Industry" issued in 2013 and the "Several Opinions of the State Council on Accelerating the Development of Modern Insurance Service Industry" and "Guiding Opinions of the China Insurance Regulatory Commission on the Implementation of the Pilot Reverse Mortgage Pension Insurance for Seniors" and the "Several Opinions of the General Office of the State Council on Accelerating the Development of Commercial Pension Insurance" issued in 2017 ". In August 2018, the China Banking and Insurance Regulatory Commission further issued a notice to expand the implementation of reverse mortgage pension insurance for elderly housing across the country. However, the authorities have still not been able to formulate sound policies and regulations for the House-for-Pension.

2.2. The Practice

House-for-Pension is running well in some foreign countries, but it is still in the bottleneck period of development in China. Since the introduction of the concept of House-for-Pension in China, it has been actively promoted and practiced. Although the operation results are not ideal, lessons can still be summarized and experience can be accumulated through the operation of several major pilot cities.

2.2.1. "Renting, Selling and Keeping" in Nanjing

In 2005, Nanjing piloted the House-for-Pension pattern in the aforementioned "free house replacement" pattern. However, the participants are limited to lonely old people who are over 60 years old and have a property of 60 square meters or more in Nanjing. The relatively stringent conditions made the coverage narrow, and the practice ended in failure.

2.2.2. "Self-help Pension by House" in Shanghai

In 2007, Shanghai piloted the model of "selling a house and repaying rent", also known as the model of "self-help pension by house". The practice is led by the Shanghai Provident Fund Management Center, and only the elderly aged 65 and above are allowed to participate. This model is suitable for the elderly who are inconvenient or unwilling to move away from their original address. However, once they participate in it, it will involve the transfer of property rights, and the elderly cannot enjoy the benefits brought by the appreciation of the housing, so they have little interest in participating.

2.2.3. "Pension and Housing Bank" in Beijing

In 2007, Beijing piloted the model of "increasing rental income for pension", which is also known as the model of "pension housing bank". It was jointly launched by Beijing Shoushan Fuhai International Pension Service Center and Zhongda Hengji Real Estate Brokerage Co., LTD., allowing the elderly aged 60 years and above to participate. However, in the process of operation, commercial companies pay more attention to their own profits, the elderly have concerns that their own rights and interests cannot be guaranteed, and low credibility leads to low participation.

2.2.4. "Multiple Choice" in Hangzhou

In 2017, Hangzhou officially became a pilot city for the House-for-Pension pattern. By using the experience of before the implementation of the pilot cities, Hangzhou provides citizens with "rent increase endowment", "housing advance endowment", "check-out subsidies pension" and "change rooms price difference pension" four "retirement with house" way, but from the bondage of traditional ideas and worries about the unknown risks, now apply for the business of the old is not much.

2.3. The Survey on the Preference of House-for-Pension

In order to study the feasibility and implementation mode of House-for-Pension in China, the author designed a questionnaire called "Preference Survey on House-for-Pension in China" and distributed it online. A total of 323 responses were collected. Through the statistics and analysis of the results, the following main conclusions are drawn.

2.3.1. Low recognition of House-for-Pension

Among our random respondents, only 14.16% said they knew about the House-for-Pension, 59.23% said they had only heard of it, and 26.61% said they had heard nothing about it. It is worth noting that half of people over 60 have never paid any attention to House-for-Pension.

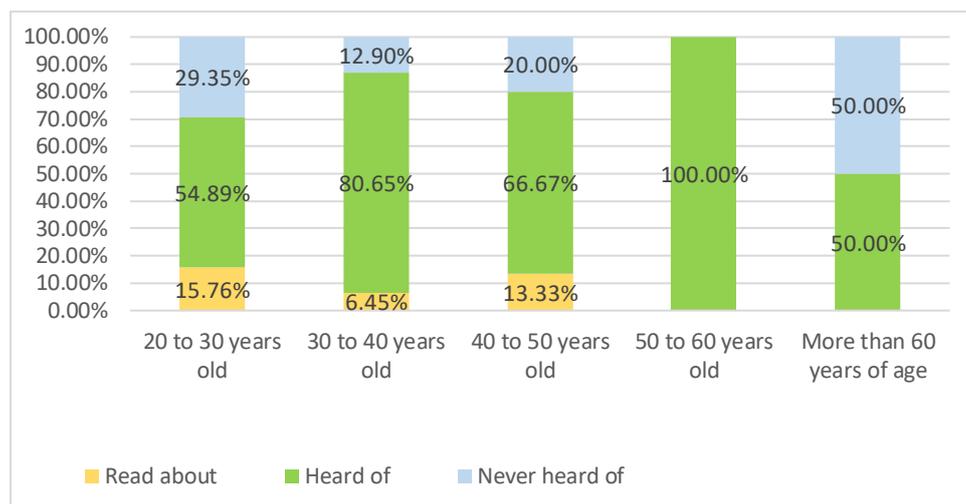


Fig 1. Survey results of cognition degree of Chinese residents at all ages to House-for-Pension

2.3.2. High acceptance of House-for-Pension

After explaining the pattern of House-for-Pension to the readers and giving the hypothesis that "after retirement, there is a house with property right but short of cash", about 90% of the respondents are willing to participate in the security system of House-for-Pension. Several kinds of existing in a given mentioned above "retirement with house" model selection of cases, people prefer to "retirement with house" as insurance products to participate in, the second is the rental income pension mode, then followed by mortgage mode, change rooms price

difference pension mode, rental in raising mode, after returning to rent, advance in the housing endowment.

Similarly, when asked whether they agree with their parents' participation in House-for-Pension, more than 90% of them agree, but 53.22% think it is most reasonable to participate if their parents have two houses.

2.3.3. Worries of People Who Don't Accept

For about 10% of respondents who checked the "Resolutely not participate" option, the most common reason was to be prepared for other ways. But, distrust of the new model, waiting for their children to retire and leaving their house for future generations were also the main reasons for refusing. Half of those who do not accept the House-for-Pension scheme do not want their parents involved either.

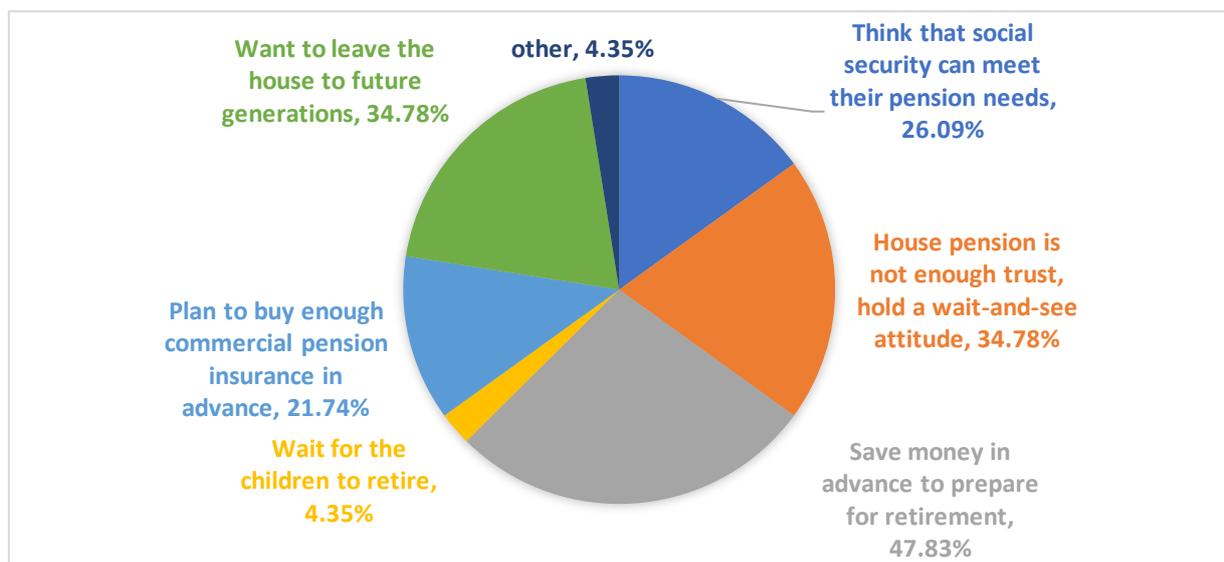


Fig 2. The proportion of people who refuse to accept the House-for-Pension

For the reasons of not supporting parents to participate in House-for-Pension, the highest proportion is that the children want to bear their parents' pension expenses by themselves, followed by helping their parents to choose other pension modes, followed by the fear that their parents will be cheated, and few people have the idea of inheriting their parents' house property.

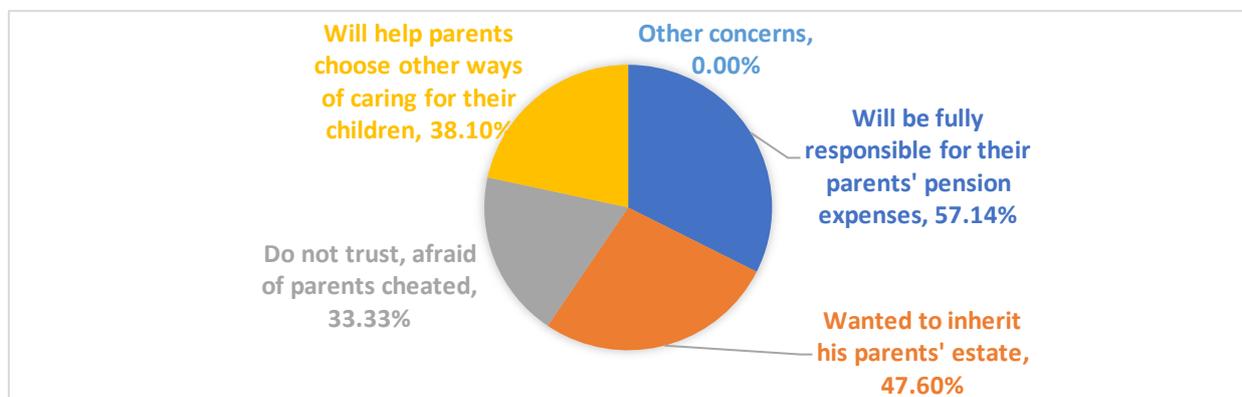


Fig 3. The percentage of people who refuse to accept their parents' participation in House-for-Pension

2.3.4. The Tendency of Urban Marginalization in Elderly Care Zone

As can be seen from the results of the survey, whether people plan to work in first-tier cities, second-tier cities, third-tier cities or marginal areas, or buy houses and settle down, more than half of them prefer convenient urban fringe areas when it comes to the choice of retirement location.

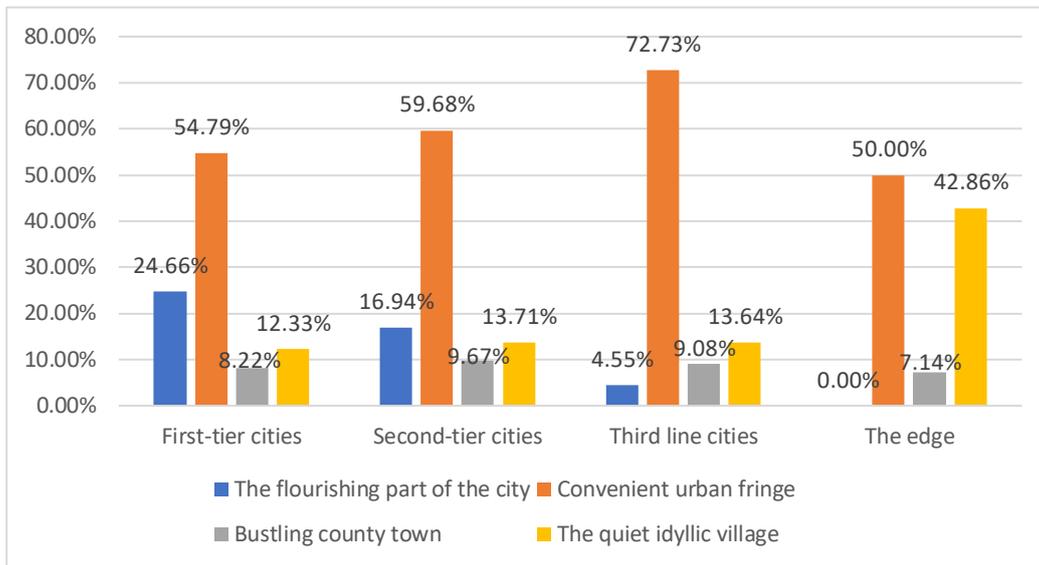


Fig 4. The preference of people who work or live in cities at all levels

2.3.5. High Pension Expectations

Through the questionnaire survey, it is found that more than 95% of people expect to receive a monthly pension at 60% or above of the local average salary after retirement, and nearly 75% expect to receive a monthly pension at 80% or above of the local average salary after retirement.

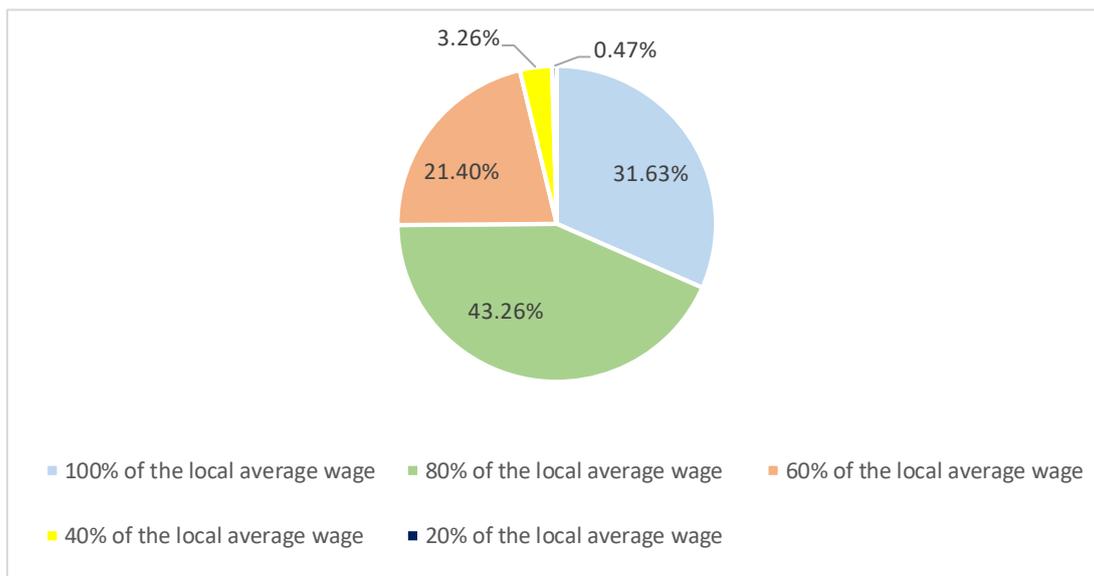


Fig 5. The level of pensions that people expect

3. The Home Equity Conversion Mortgage in US

The House-for-Pension pattern is imported. It originated in the Netherlands and has been operating abroad for many years. It has achieved good results in some developed countries. The

United States is one of the few successful people in the promotion and implementation of House-for-Pension products, and is also the main target of China's House-for-Pension. This section mainly briefly explains the Home Equity Conversion Mortgage in US.

3.1. Rigorous Operation Process

There are three current patterns of House-for-Pension in the United States: the Home Equity Conversion Mortgage, referred to as HECM, the Home Keeper Reverse Mortgage Program and Financial Freedom Reverse Mortgage Program. Among them, HECM is most favored by the American people, and more than 95% of the participants ultimately choose HECM. So in this section we only introduce it.

HECM was initiated by the U.S. Department of Housing and Urban Development (HUD), implemented by the Federal Housing Administration (FHA), underwritten by the federal government and led by the government. Applicants for this project must be senior citizens with independent housing property rights. If it is a joint property right, the minimum age must be at least 62 years old. The applicant must pay off the original housing loan, The unpaid loan amount must be lower than the amount of the HECM loan. And the existing house must be the mortgage object. The specific operations are as follows:

3.2. Scientific Legal Procedures

It can be seen from the figure that the smooth implementation of the US HECM plan is inseparable from its rigorous and standardized operating procedures. However, it is the scientific legal procedures to ensure that these procedures can be implemented step by step.

In order to enable the smooth development of House-for-Pension, the US Congress has not only formulated "The Home Equity Conversion Mortgage (HECM) Insurance Demonstration", "Housing and Community Development Act," and also included some provisions of the "National Housing Act" into the United States Code. Through clear legal norms to restrict the qualifications of the subject, define the nature of HECM and the equity relationship between the borrower and lender, it not only specifies the applicable conditions, insurance mechanisms, insurance institutions, and consulting services, but also specifies the content of the mortgage object and the government. Complete laws promote the implementation of the system.

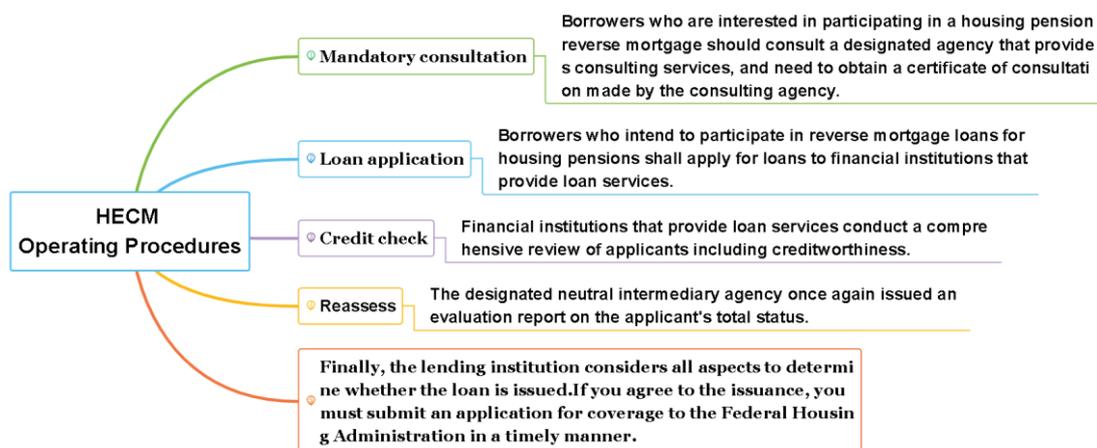


Fig 6. HECM participant operation process

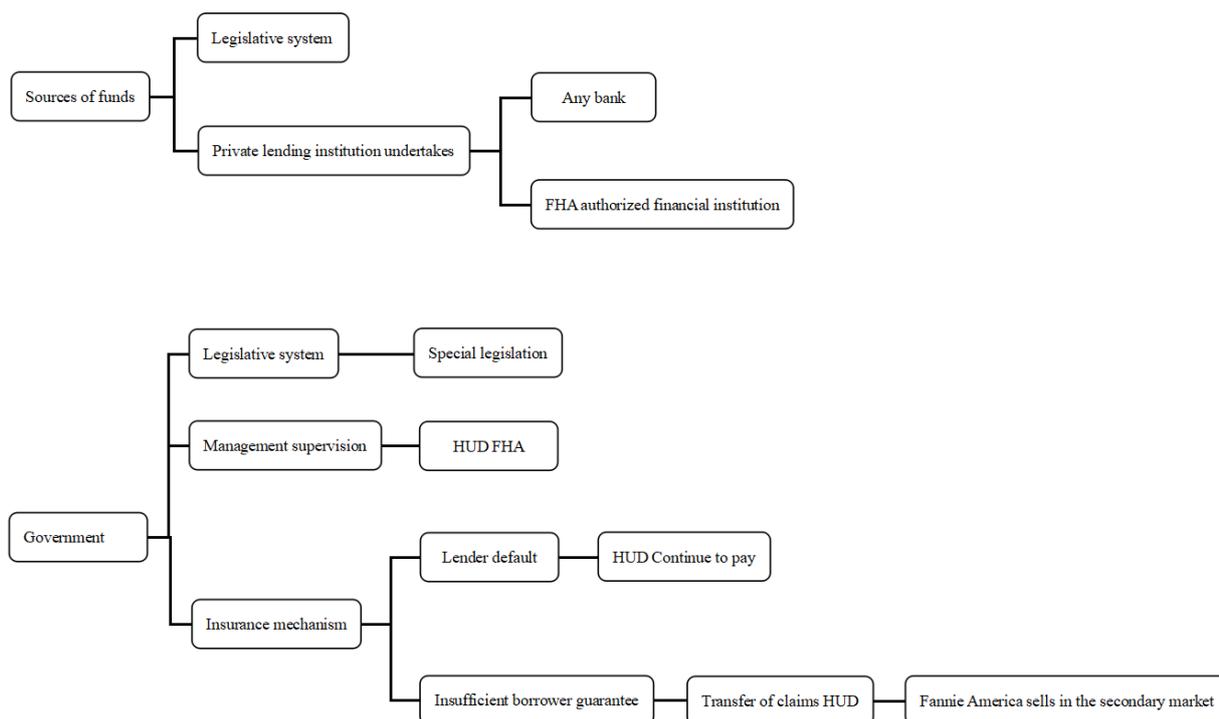


Fig 7. Schematic diagram of the basic operating specifications of HECM real estate reverse mortgage loans

4. The Problems in China's Existing House-for-Pension Pattern

Based on the above-mentioned survey results of Chinese House-for-Pension preference, the bottleneck phenomenon in the practice and the successful cases in the United States. Summarize the following problems in China's existing House-for-Pension Pattern.

4.1. Lack of Reasonable Operating Procedures

In China's House-for-Pension practice, there are no rigorous and standardized procedures to guide and restrict, the legal subject qualifications of the intervention agencies and participants have not been clearly defined, and the implementation process is in a relatively vague state, so the efficiency is low, and Lack of credibility.

4.2. Incomplete Legal Supporting Mechanism

The most important factor for the success of the US HECM model is that it has sound legal protection. The US law not only clearly stipulates the houses that can be used for housing mortgage loans, but also makes absolutely public the information of the House-for-Pension contract. There are also detailed judicial explanations on the protection of the rights and interests of the elderly. In contrast, China's laws and regulations in this area are very lacking, and the implementation of the system still contradicts existing laws. For example, there are restrictions on housing property rights that are allowed to participate in mortgages, real estate reverse mortgages have no legal reference, unclear regulations on land use rights renewal, and lack of relevant tax laws. The omissions and blind spots of relevant laws have seriously hindered the promotion and development of housing for the elderly.

4.3. Lack of Favorable Government Support and Supervision

As a kind of welfare system, the government must play the role of guide, participant and regulator to protect the system if it can be promoted smoothly in our country. However, although the Chinese government has repeatedly encouraged House-for-Pension, it has failed

to issue substantive policies to escort the system, nor has it promulgated relevant laws and regulations to supervise intervention agencies and participants.

4.4. Unclear Target and Small Coverage

The emergence of House-for-Pension is a supplement to the social pension insurance. However, the health, income and wealth status of different groups in different regions after retirement are not the same, so the demand for and acceptance of this model is also different. In the design process of China's House-for-Pension product, the elderly group failed to be classified according to regional differences, which restricted the choice of most elderly people.

4.5. Insufficient Concept Popularity

From the results of the questionnaire survey, we can see that the popularity of the concept of House-for-Pension in China is still very low.

5. Suggestions on the Constructing of House-for-Pension Pattern with Chinese Characteristics

5.1. Improve Relevant Laws and Regulations

The main reason for the poor progress of China's House-for-Pension is the existence of legal gaps. Promoting the exploration and improvement of relevant laws and regulations, and combining them with the specific details of House-for-Pension is the primary task of the current development of House-for-Pension. The civil affairs bureau, real estate management bureau, urban development department, human resources and social security bureau, banks, insurance companies and other relevant parties involved in the operation process of House-for-Pension should negotiate and formulate relevant laws and regulations and industry codes of conduct, including clear The issue of housing property rights renewal, the use of differentiated rules for economically affordable housing based on the purchase period, the clarification of interest rate changes and non-recourse protection issues involved in the reverse mortgage of real estate in housing pensions, and the introduction of corresponding tax relief policies.

5.2. Government Guarantee and Supervision are the Key

In addition to sound legal guarantees, the success factors of HECM in the United States also include the government's full participation in product design, risk aversion mechanisms, and program setting, as well as providing full guarantees for House-for-Pension products, and setting up special Of the regulatory agencies supervise and manage the operation of the new system. This move has greatly strengthened people's confidence in the House-for-Pension product and eliminated the worries of the elderly. In order to smoothly promote the welfare policy of House-for-Pension in China, the Chinese government can also learn from the experience of the US government and try to guarantee intervention. At the same time, a rigorous supervision mechanism must be established. On the one hand, the senior citizens who apply for the application must be reviewed in terms of age, property rights, creditworthiness, etc., and the housing of the elderly must be regularly checked afterwards to prevent moral hazards; On the other hand, it is necessary to regulate and review the intervention agencies and supervise the entire operation process to ensure the interests of all parties.

5.3. Carry Out Multi-level Product Design

According to China's current national conditions, the potential beneficiaries are subdivided and multi-level products are designed taking into consideration the old-age insurance policies and reserves of funds, the property attributes and location of the elderly, and the income status of the elderly, etc. to meet the needs of different groups for the elderly.

In addition, according to the results of the questionnaire survey, we learned that those who are willing to accept House-for-Pension prefer the insurance product model, which shows that the insurance industry has a certain degree of recognition and trust in the hearts of the people, so House-for-Pension is being carried out. In product design, insurance companies should be encouraged to participate more.

5.4. Intensify the Publicity and Promotion

From the survey, we can know that although Chinese residents have a low awareness of House-for-Pension, they have shown a high degree of acceptance after understanding the system. The traditional concepts of raising children and guarding against the elderly are not strong factors that restrict people from participating in the House-for-Pension, but rather worry about people's ignorance of the new system. Therefore, the government or other relevant agencies should organize and hold lectures on the new system, broadcast explanatory videos, or distribute brochures to increase the public's awareness of House-for-Pension.

6. Conclusion

House-for-Pension came into being under the social background of advocating the establishment of a multi-level elderly care market to make up for the pension gap. Therefore, it has Chinese characteristics. In the setting of procedures, we should not imitate foreign models, but should consider our country. On the basis of national conditions, continue to explore and improve. In addition, as a supplementary old-age security system, House-for-Pension can benefit from a specific range and does not necessarily cover all people. However, we hope that a reasonable House-for-Pension security system can be established as soon as possible so that more elderly people are willing to participate and provide stronger protection for their elderly life.

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