

## **Research on house-for-pension scheme in aging society**

Jiemei Li

Law and Business School, Wuhan Institute of Technology, Wuhan Hubei, 430205, China

**Keywords:** Population aging, House-for-pension scheme, Scheme.

**Abstract.** currently population aging in China has become an urgent social issue to be solved. The burden of providing for the aged is worsening, which makes the feature of aging before getting rich become more and more significant. With the gradual expansion of the old-age pension gap in China, the contradiction between income and expenses is more and more predominant. Meanwhile, single-child policy which has been conducted for a long time has led to a 4+2+1 model in Chinese domestic structure so that the burden of old-age pension for single children is very huge. This requires to bringing in house-for-pension scheme so as to fundamentally solve the old-age pension problems existing in Chinese society. This article makes analysis on the feasibility of house-for-pension scheme in Chinese aging society, explains risks during operating the house-for-pension scheme, and proposes some measurements to consummate the house-for-pension scheme.

### **Introduction**

Population aging as a worldwide difficulty becomes worse and worse specifically in China. At present, the elderly people above 60 years old have reached 0.2 billion which has far more higher than 10% the standard. It is estimated that the amount of elderly above 60 will reach 0.43 billion in 2020, and more than 0.3 billion in 2025. In 2050, old people who have no children before their death will be about 79 million. Huge amount of old people will produce the multilevel and diversified pension demands. How to well solve the old-age pension problem, especially for empty-nest, widow and old age people, and to guarantee the life quality of this group of people has become a tough problem in the face of the government. American, Japan and Singapore has successively implemented the house-for-pension scheme to relieve the old-age pension problem, which has provided referential values for China to conduct house-for-pension scheme.

### **Introduction of house-for-pension scheme**

House-for-pension scheme refers to that old people choose house property mortgage into the bank, insurance business and other relevant financial organizations to obtain steady pensions or to enter into nursing home for support. In this way, they can get a certain amount of pensions or offset the expenditures in the nursing home. After they die, commercial banks or the intermediate organizations have the right to get back the right of using house of the old people and the money by selling the houses will belong to the mortgagees. As a new financial instrument, house-for-pension scheme has been implemented not long in China s that its development is not mature with very single form. Currently, the main method is reverse mortgage loan by the house, which is applicable for a small scope of people. In addition, the effect of trial implementation of house-for-pension scheme is not good so that people nowadays realize that it is very necessary for continuous perfecting house-for-pension scheme and further exploring house-for-pension scheme in the modern society so as to benefit people in different conditions.

## **Feasibility of implementing the house-for-pension scheme in Chinese aging society**

First is that relevant policies have been issued one by one. Since in 2003 when the president of China Real Estate Group proposed to set a reverse mortgage loan insurance so that old people who have private houses and hope to cover insurance can enjoy housing mortgage insurance and claim annuity, the work of house-for-pension in China has been actively promoted. In September of 2011, CPPCC has convened a proposal with the theme of developing old-age care career; since from 2016, pilots will be expanded on the basis of four pilot cities. With positive support from above policies, it will attract full attention from the public and various organizations on house-for-pension work to promote its development.

Second is the actively transition of modern people's concept. Considering that the amount of widow and old people in China is becoming more and more, pension and provision for them has become a big concern. According to a survey, the realistic situation at present has made many old people truly changed their inherent values of bringing up sons for their old-age care. In the past, old people would leave houses to children and they would make the decision even they were short of money. The real reason is not only because of the family affection but also because of the lack of ideal pension security measurements. Now the house-for-pension scheme is very suitable for old people who are willing for this. Based on the housing mortgage, old people can get relevant charges each month also as a subsidy of their own families excluding daily expenditures so as not to live frugally.

Thirdly, market economy is tending to be sound. On one hand, Chinese financial investment market has developed very quickly. After the implementation of house-for-pension scheme, it is critical for financial organizations to play important role except for the government. Currently, Chinese economy has developed very steadily and financial organizations own rich funds. Considering the future development of pension insurance market, house-for-pension will be a field with great investment values. If financial organizations focus more on house-for-pension project, it will inevitably promote a new development of Chinese old age caring industry. On the other hand, Chinese real estate evaluation market continues to be perfected. An important industry involved with house-for-pension is the real estate market. Real estate price evaluation will influence both parties' vital interests. In the future, with the declination of land resources, the development of new houses will slow down. In this case, the second-house market will become more important, which make is possible to promote the development of house-for-pension.

## **Risks in the house-for-pension scheme**

First is the risk in the face of lending institutions. Risks mainly include longevity risk, risk interest rate risk, building devaluation risk, and land usage right risk. Longevity risk is directly related with the lifetime of the mortgagee. If the old people lives long, and the age limit of the house usage has exceeded the limit set originally, the loan period will be long and the institution will undertake larger risk. IRR refers to that when the change of expected rate of interest does not accord with the change of actual rate of interest, the loan provider will face the risk that the loan credit and accrued interest exceed the mortgage house values or will face the risk that the mortgagor implements contract ahead of time. The reason why there is risk in the building devaluation and right of land usage is because the most important carrier in house-for-pension scheme is real estate so that the change in real estate market will possibly lead to the risk of real estate devaluation.

The second is the risk the borrower faces. Risks include the risk of house increment, the risk of old-age nursing institution, the moral risk of loan party and the expenditure risk. Real estate industry has developed very quickly, but one the borrower has conducted mortgage on real estate to the mortgagee, after the old people die, the profits occurred from the house increment will be obtained by the mortgagee. Risk of institution bankrupt is because that the pilot work of house-for-pension in China is mainly operated by banks and insurance enterprises so that if there is bad management or these institutions cannot achieve expected profits from the house-for-pension business, there is the possibility of the breakdown of the business or the bankruptcy. Ethical risk mainly refers to that if the

borrower gives his own house to the loan party, once the old people moves out the original house and enters into the nursing home or the rental house provided by the loan party, as the contract has been signed, there is the possible ethical risk that the current loan party take bad care of the borrower or the property management is bad so that the life quality of the old people is impacted.

### **Some measurements to perfect house-for-pension scheme**

#### **Actively develop new consumption concept for old age pension**

House-for-pension is not in accordance with bring up sons for old-age caring and legacy inheritance in traditional meaning. With the quickening of economic society's continuous development and population flow, the house-for-pension experience in western countries has brought about huge shock to Chinese traditional domestic concept of old-age pension. To transform Chinese people's traditional concept, the country should play the guidance role of news media and public opinion to call for the concept of house-for-pension and conduct relevant well-known brand promotion about financial insurance products so that more citizens can truly understand the detailed policies of house-for-pension and guide them choose reasonably according to their own practical situation. Based on the masses' participation into the demonstrative effect of house-for-pension to attract more old people to join so that investors who are well off but with poor investment channels can truly know and accept the effective connection between old-age security and property investment for old people to select relevant pension methods. Except for promotion of above policies, Chinese practical situation should be taken into account from families without children to expand to other old families with willingness. In this way, children's concern can be removed to truly reduce old people's doubts and improve their inherent concepts.

#### **Promote the diversity of house-for-pension form and reasonably relieve the restrictive condition**

At present, restricted condition on house-for-pension scheme which operate preliminarily is too strict with single form. Thus, according to detailed old-age caring demands, formulate different project forms. Propose various selection methods based on whether the right of house changes, when it changes, and the hardware facilities of institutions. Based on this, make out a serious preferential policies such as to reduce the loan interest rate and increase loan subsidies. Through loosen the house-for-pension restrictive conditions and rational relief on projectization and restrictive conditions to attract more old people to participate so as to promote the development of house-for-pension scheme in China.

#### **Improve and intensify the credibility of operation institutions**

It is very important to improve the credibility of house-for-pension operation organizations. When China firstly implement the policy, intentionally choose commercial banks and famous institutions and other large organizations which is of great credibility to operate. Then establish an association which is in charge of the house-for-pension institutions to make grade estimation to conduct comprehensive evaluation on many aspects of the operation institutions. And the evaluation results should be transparent and public, which will be one of the most basis for old people to choose suitable nursing organizations. Meanwhile, it can truly reduce their distrust and concern on the institution. At last, the government department should intensify the supervisory work, strictly control each operation procedure in the house-for-pension projects, and continuously intensify the supervision force on the operation institutions to truly prevent various corruptions from happening.

#### **Perfect each policy and regulations to realize the rationalization of house price evaluation**

Currently, Chinese house-for-pension scheme has disadvantages in policies and regulations. For example, there is no obvious regulation on how to dispose the violation of financial organizations, no notable regulations on the house-for-pension model of Chinese countryside homestead, and no

detailed measurements on how to achieve the account transparency of old people in their consumption. In this way, soundness and perfection of relevant policies and regulations seems very important. The author thinks it possible to collect opinions and advice in government website and official Microblog, and Wechat to fully mobilize domestic experts and professionals to offer suggestions so as to consummate each policy and regulation more scientifically. Meanwhile, the house value assessment should be equal, fair, public and scientific.

### **Try as far as possible to consummate the hardware facilities and improve service level in old-age caring institutions**

Currently, the overall condition in many Chinese old-age caring organization is not good. It is common that nursing staffs are of poor professional quality providing insufficient caring service for old people, hardware facilities are not well developed, the overall sanitary condition is poor, and the entertainment activities for old people are not enough. All mentioned above require the nursing institutions to continuously improve fund investment on software and hardware facilities. Specially, truly guarantee the comfortability of old people's living environment and try had to develop old people's disease hospitalization service. Regarding the recruitment of nursing staffs, hire employees who has high professional quality, compassion and patience and rich experience with fat salaries. Meanwhile, try as far as possible to enrich old people's entertainment activities in the nursing institutions so that they can be cared best in all aspects.

### **Conclusion**

To sum up, under the circumstance that China is entering an aging society, house-for-pension scheme is still in the stage of exploration. As a new house-for-pension pattern, China should refer to the successful experience from western countries on the implementation. At present, only those countries with solid economic foundation, sound legal system and good credibility can choose house-for-pension scheme. Thus, if China wants to implement house-for-pension scheme, government positive support and supervision is needed to urgently realize the transformation of the national old-age consumption concept so as to gradually promote the development process of house-for-pension to be one of the most important part of Chinese old-age pension system.

### **Acknowledgement**

Preside soft science projects of Hubei Science and Technology Agency

"Study on government responsibility boundary in the construction of new social security in rural areas" (Project No.: 2010DHA016)

"Investigation and analysis on the economic and social effect of trial implementation of house-for-pension" (2014BKF139)

### **Reference**

- [1] Qian Lina. Dilemma of "house-for-pension scheme" in China and countermeasure study, *Reform & Opening*,2014(11).
- [2] Cheng Xinxuan, Cao Feifei. Dilemma of house-for-pension model in China and discussion on the measurements, *Strategy and Decision-making*, 2014(11).
- [3] Guo Mingyue, Peng Shuang. Restraining factor of the implantation of Chinese "house-for-pension scheme" and countermeasure analysis, *China Market*,2015(11).
- [4] Liu Ting, Zhang Xiaonan. Practical exploration of house-for-pension and analysis on its development road, *China Market*,2015(26).

- [5] He Weikang, Men Jianfang. Discussion on the feasibility of implantation of house-for-pension in China, *HP Financial*, 2016(2).
- [6] Zhuang Yuan. Feasibility of Chinese house-for-pension scheme construction and suggestions on its operation, *Scope of rule of law*, 2016(3).