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Housing Wealth and Asset-based Welfare as Risk

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Abstract: *Housing wealth has been viewed as the main route to asset-based welfare. Accumulated wealth is supposed to provide more in the way of welfare services than just shelter, services such as a net pension and the financing of long-term care. This paper challenges this view and highlights the new risks attached to acquiring and managing housing wealth. Although assets may provide a nest egg in old age, earlier on in the life cycle they leave mortgagers disproportionately exposed to financial and housing market risks and amplify susceptibility to existing social risks such as unemployment or sickness. In contrast to social insurance schemes, assets individualise social risks and leave it to the individual to smooth housing consumption over their life. This lack of risk pooling constitutes a new and hidden social risk that should be considered in the discussion around homeownership.*

Keywords: asset-based welfare; new social risks; social insurance; risk management.

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Introduction

The theory of asset-based welfare claims that accumulated wealth in savings, shares and property will provide wider welfare benefits and lift households out of poverty (Sherraden 1991; Cramer and Williams Shanks 2014). Scholars have asserted the direct welfare effects of this, such as the creation of a fund for welfare needs, such as retirement and long-term care costs, but also the positive indirect effects on nurturing desired social behaviour, such as increasing democratic participation and planning for the future. Property wealth has a central role in the asset-based welfare approach, as housing wealth is typically the most valuable asset compared to other asset holdings such as savings or pensions, especially in societies with a high ownership rate (Rowlingson and McKay 2012; Piketty 2014).

However, there is little empirical evidence to support all the asserted positive asset effects (Searle and Köppe 2014). Evidence suggests a positive association between holding assets and feeling more secure in the face of financial emergencies, greater resilience to social risks and greater well-being. Yet, the causal link that asset-building schemes contribute to these positive effects is weak. It seems rather that other social factors contribute to asset accumulation and reflect welfare gains, such as being in work and benefitting from education.

Despite this lack of evidence, home ownership remains central to asset-based welfare, especially in the Anglo-Saxon and East-Asian welfare regimes. Even though the global financial crisis highlighted the risks of subprime mortgages and house price bubbles, the ideology of homeownership (Ronald 2008) has not been challenged. In spite of all the limitations, housing wealth is promoted (Conley and Gifford 2006) and used (Searle and Smith 2010) as an insurance. Households are increasingly accessing their housing wealth while still mortgaging through equity withdrawal, equity release, mortgage borrowing and similar arrangements (Parkinson *et al.* 2009; Lowe *et al.* 2012; Ong *et al.* 2013; Smith and Searle 2008). While the asset-based welfare theory suggests that housing wealth only be used later in the life cycle, these studies suggest that equity is withdrawn much earlier and used as a piggy bank in situations of financial stress such as unemployment or sickness. Moreover, the risks associated with holding a mortgage are not covered (Ford and Quilgars 2001; Ford *et al.* 2004a) and are neglected by those promoting housing-based welfare.

In reference to these shortcomings of housing wealth as a welfare resource, I will challenge the concept of asset-based welfare as a secure and reliable source of welfare by highlighting the risks associated with debt-financed welfare. Central to the argument is a life-course perspective on these risks. Conceptually I will draw on the gAMUT approach (Köppe and Searle forthcoming), which identifies four key stages of housing wealth: Acquiring, Managing, Using and Transferring. The article will proceed as follows. First, a short review of the social risk literature links housing wealth and mortgage debt to new social risks and the individualisation of welfare. In the subsections below I highlight the risks for each housing wealth stage (Acquiring, Managing, Using, Transferring). Although I acknowledge the clear welfare benefits of housing wealth, this paper focuses entirely on the risks to challenge the dominant view on the benefits of asset accumulation. This essay is largely based on theoretical considerations with supporting evidence drawn mainly from the United Kingdom (UK) and it aims to contribute to the critical debate on the opportunities and risks of asset-based welfare. Although all stages bear risks and lead to inequalities, the focus will be on the managing and usage stages to highlight the key welfare shortcomings with housing wealth. The final section discusses the fundamental trade-offs between assets and insurances and how

the former increase and individualise household risks at certain life stages as well as widening the wealth gap. This article concludes by looking at the fundamental risks associated with asset-based welfare and what that means for housing policy over the life course.

Property and risks

The risks in modern societies have been widely discussed (Taylor-Gooby and Zinn 2006). Social risks in particular are at the heart of such social policy interventions as protection against old age, sickness or unemployment. While Anglo-Saxon welfare states have historically rather emphasised poverty alleviation, Bismarckian social insurance has always been founded on collective risk coverage, albeit not always universal, and income smoothing over the life course. However, the turn towards 'new' social risks has revealed that modernisation and social change exposes individuals and households to risks not covered by traditional welfare schemes which address the 'old' social risks (Bonoli 2005; Armingeon and Bonoli 2006). So far the literature on new social risks has focused on vulnerabilities related to care commitments, low skills and the privatisation of public welfare schemes. Although moving towards asset-based welfare is in principle the privatisation of welfare, little attention had been given to the issue in terms of new risks. The privatisation of old social risks such as the shift towards private pensions or greater reliance on housing wealth can be best described as a shift from collective risk-pooling towards the individualisation of risk (Hacker 2006). In addition, debt-financed homeownership exposes mortgagors to new risks associated with financial markets such as price volatility, flexible interest rates, subprime lending and over-indebtedness (Porter and Twomey 2012; Searle and Köppe forthcoming). Below I will apply a life-course perspective to these new social risks associated with homeownership by considering the four stages of accumulating, managing, using and transferring housing wealth.

Accumulating

Once individuals have acquired housing wealth they are constrained and exposed to risks in two ways.
First, acquiring housing wealth can reinforce family dependencies. On the positive side, family support for a deposit may strengthen family ties. However, under these circumstances housing wealth as a means of social protection depends on much stronger informal family relations than do more formal welfare programmes. There is some tentative evidence that parental support for deposits became more important after the financial crisis (Humphrey and Scott 2013), though more robust research is needed to verify this trend. Depending on the conditions of parental support (interest charged/free, loan/gift), children trade personal independence for acquiring a home, which makes them vulnerable to family conflicts. Heath and Calvert (2013) report that first-time buyers who received parental support felt uneasy about receiving money, guilt when they could not pay it back and a loss of autonomy. The concept of 'my home is my castle' may thus turn into 'mum and dad's castle' or the 'in-laws' prison'.

Second, holding a mortgage reduces labour-market flexibility, considerably so in Britain (Böheim and Taylor 2002). While renters have some flexibility to move for jobs, homeowners have higher transactions costs when moving homes. Cross-sectional evidence, from the United States at least, questions this view by showing that homeowners still have better labour market outcomes (higher employment and wage, shorter unemployment spells), despite their

relatively lower level of immobility (Coulson and Fisher 2002). However, this could also mean that housing wealth acquisition is the result of a successful employment career and that in turn was enabled by the prior flexibility facilitated by renting. Further longitudinal studies would be required to establish if opportunities or risks dominate. The risks for homeowners are also heightened during recessions, when house prices decline along with rising unemployment. Hence, homeowners who are confronted with the risk of losing their job during a recession, on top of that they must also face the risks of negative equity and house price volatility. Böheim and Taylor (2002) show that negative equity actually increases the pressure to move either to a cheaper home or better employment prospects, but little is known about the long-term wealth effects of these moves under high economic constraints.

Managing

Managing mortgage debt is the life stage in which for various reasons the highest exposure to risk can be observed. With flexible, tracker or adjustable mortgage rates, mortgagers' disposable income is directly linked to interest rate volatility and economic growth (Porter and Twomey 2012). Throughout the managing stage, net household income is less predictable than the income of renters or mortgagors with fixed-rate mortgages, and even the timing of re-mortgaging can turn into a gamble.

Moreover, homeowners are exposed to new risks that are not covered by traditional welfare schemes. Homeowners with little net housing wealth turn consequently into risk managers, and this is by far the most common housing pathway in Britain (Köppe *et al.* 2013). Owning comes with a risk of losing the property acquired and the wealth associated with it. Managing housing wealth, therefore, includes seeking protection against physical and social risks that could lead to the property being lost. The environmental risks to housing stock (e.g. flooding, fire) can be covered by home insurances, whereas protection against social risks such as unemployment, ill health, need of care or bereavement can be sought through various private schemes or informal arrangements.

Certain social risks, such as unemployment and illness, do not discriminate between renters and owners, but the effects on disposable income can vary considerably. While most advanced welfare states have some form of income protection for these working-age risks, usually associated with the managing stage, these welfare benefits are limited in duration. Moreover, public means-tested benefits typically pay rent allowances, but do not cover mortgage repayments.

More specific social protection schemes for mortgage debtors have been developed to meet mortgage payments in various social risk scenarios. There are only a few public schemes that cover the repayment of mortgages or at least with the interest due when homeowners are struck by such standard social risks as unemployment and sickness (i.e. Support for Mortgage Interest in Britain; see Searle 2012), but most are means- and asset-tested and exclude mortgagers. More common are private welfare solutions such as mortgage holidays (often with flexible criteria), mortgage payment protection insurance (MPPI, based on more specific criteria, such as unemployment, sickness), and life insurances (following the loss of a partner). Other social risks, such as divorce, negatively affect the amount of accumulated housing wealth yet remain formally un-insurable (Bowie-Cairns and Pryce 2005) and increase the risk of loss of ownership (about 6% of mortgagers in this situation lose or struggle to keep their property; Köppe 2014). Mortgage holders have to manage and balance these social risks

to a larger degree than outright owners, as their housing wealth is financed through debt (Searle and Köppe forthcoming).

Although some of the risk associated with the managing stage can be insured against privately, risk exposure and insurance take-up is unevenly distributed and mainly affects low income earners, self-employed and women (Ford *et al.* 2004b; Clasen and Koslowski 2013). On top of this, the mis-selling of MPPI in the UK particularly affected those households with uninsurable risks (FSA 2009). In sum, this divide in risk exposure and coverage associated with managing housing wealth is disproportionately shouldered by low income households, which is in contrast to welfare policies aimed at reducing inequalities and alleviating poverty.

Using

Using housing wealth is accompanied by far fewer risks than the managing stage and overall in this stage housing is a welfare resource, but certain risks associated with assets remain and these have been barely addressed in the literature. First, the net pension effect of housing wealth is rather a contingency that everyone faces than an unpredictable social risk, but this means that the mortgage has to be repaid by retirement age, which seems to be less the case for an increasing share of pensioners (Parkinson *et al.* 2009). Instead of benefiting from outright ownership, the usage stage begins later in life and the stress of managing mortgage risks is extended into retirement.

Second, should housing wealth be used to finance long-term care, risk inequalities have a much more dividing welfare effect. Only about a fifth of a cohort requires formal care services and sometimes for several years. Women in particular are by far more likely to need care in old age (Parker and Schneider 2007). Thus, some can pass on their housing wealth, while others have to use it for long-term care. This is of course more the case in jurisdictions with a strong means-test for access to public long-term care services (United States, UK). In other countries housing wealth is more protected (Ireland, Considine and Dukelow 2009, p. 389) or assets are exempt from the income-test altogether (e.g. Sweden, Australia).

Equity release products have been developed to enable homeowners to withdraw equity for consumption or long-term care needs, while they can continue to live in their home. Some equity release products pay an annuity instead of a lump sum which would cover some of the risks associated with longevity and extended long-term care needs. Yet, both equity release and downsizing are more likely to be used by low income households (Painter and Lee 2009; Overton 2010). Moreover, longitudinal evidence suggests that these marginal homeowners tended to regret their decision and feared the loss of security that is normally associated with homeownership (Fox O'Mahony and Overton 2015).

In a nutshell, using housing wealth remains a last resort for vulnerable households. Although holding assets provides some security in old age, it should be acknowledged that equity withdrawal exposes homeowners to new risks. Moreover, these risks are disproportionately distributed, with the risks being greater for women and low income households.

Transferring

Finally, the transfer stage of housing wealth contributes to the perpetuation of the intragenerational inequalities noted above. As already highlighted during the acquisition

stage, parental gifts and transfers are becoming increasingly important in order for children to be able to acquire their first home (Heath and Calvert 2013; Helderman and Mulder 2007). This perpetuation of wealth inequalities counteracts other welfare aims, such as mitigating income inequalities and poverty reduction.

In brief, households face the greatest risk associated with housing wealth during the managing stage. However, the acquisition and usage of housing wealth can also cause stress, increase dependencies and have other negative welfare effects. Moreover, these risks and negative impacts are distributed unequally. Transfers of housing wealth perpetuate these inequalities and poverty across family generations. Overall, these negative effects are the very opposite of the alleged positive effects of asset-based welfare. Highlighting these contradictions of asset-based welfare should lead to more systematic and comprehensive research to evaluate these trade-offs critically.

Assets are not insurances, stupid!

Instead of being *an insurance* (Searle and Smith 2010) or an asset to draw on in emergencies, the life-course perspective reveals that there are new risks associated with homeownership. The concept of insurance is based on the principle of risk pooling, which is not the case with housing wealth. The family home is a single asset holding and all risks, starting with accumulation through to usage, are borne by the individual or the household. More specifically, housing wealth lacks key characteristics of social insurances (Barr 2004), such as shared administration costs, the annuity of benefits (often indexed), an actuarial link between contributions and benefits, and often compulsory or quasi-mandatory membership. It is apparent that only through such financial vehicles as annuities, equity release products or additional insurances (e.g. MPPI) can housing wealth fulfil the role of risk protection associated with social insurances. However, the big advantage of housing wealth over insurances is that it can be used for multiple purposes.

From the perspective of individual risk management, the 'really big trade-off' (Castles 1998) seems to be not between housing and a pension, but between a safety-net built on assets versus exposure to financial market risks. This tension between relying on housing wealth and financial markets was revealed in extreme form by the global financial crisis in the late 2000s. Subprime lending practices created housing bubbles in various jurisdictions that relied heavily on asset-based welfare through homeownership. It became apparent that housing wealth is actually debt-financed welfare (Searle and Köppe forthcoming) in the acquisition and management stage, until it eventually turns into outright owned asset-based welfare. Yet, even the usage stage revealed unequal risk burdens and negative welfare effects. These risks, pressures and negative welfare impacts run counter to the objectives of social policy, such as reducing inequality and poverty, and this ultimately questions the welfare function of housing wealth propagated by the asset-based welfare hypothesis.

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