



As safe as houses

Mortgage debt and financial stress in older persons

NZIER report to the Office of Seniors

February 2024

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Key points

Purpose and background

- This report examines what Centrix data can reveal about mortgage stress in seniors. The Centrix mortgage data analysed for this report allows us to examine age, gender and regional trends.
- Household living costs and mortgage interest rates have increased post-COVID-19.
- Mortgage rate rises have the potential to contribute to financial stress for people on fixed incomes, low levels of earnings and lower levels of earning potential.
- Sixty-six percent of seniors own their houses outright, 13 percent pay a mortgage and 20 percent rent.
- Treasury research shows seniors who pay rent or have a mortgage are more likely than outright owners to spend more than 40 percent of New Zealand superannuation on housing. So, rising mortgage rates put pressure on seniors' budgets.

Findings from the Centrix data

- The number of borrowers in age groups over 50 is relatively static.
- However, the number of outstanding mortgages in the 50+ age groups has increased significantly in the last five years, including 65+ groups who are more likely to be on fixed incomes and have lower earnings potential.
- The percentage of overdue mortgages for the 50+ age groups over the last five years ranged between 2 percent and 2.5 percent compared to a range of 1 to 1.5 percent for all mortgages.
- It appears that lenders are effectively managing mortgage risk from a lender perspective based on the containment of arrears as a percentage of mortgage holders.

Recommendations

- The extent of any dynamic in which some mortgage holders have to exit their mortgages, freeing up existing housing capital and downsizing, moving to rental accommodation or taking up other options is unclear. This would be worthy of investigation as social and economic conditions for seniors evolve.
- The ability to better link public and privately held data sets would assist with a better understanding of the dynamic between mortgage stress and overall well-being. For example, being able to link the Centrix data with sociodemographic and household economic data would help with understanding the security of tenure, household income and other variables. This may be possible as part of the Statistics New Zealand Integrated Data Infrastructure.

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1 Shedding light on older people with mortgages

1.1 Objective

The objective of this research is to gain a better understanding of the impact of mortgages on older people. This includes the nature and magnitude of the issue, including distributional aspects.

The Office for Seniors has commissioned this research to get a picture of older people (65 and over) in New Zealand who hold a mortgage.

This research was commissioned in the context of New Zealand's ageing population and the increasing numbers of people entering later life paying off mortgages, as well as the current economic climate, which is putting pressure on household finances. The Government's strategy for our ageing population, Better Later Life – He Oranga Kaumātua 2019 to 2034, contains the aim that people can age in a place they call home safely and, where possible, independently.

Indicators such as homeownership rates and household spend on housing among the older population help to build a picture of the outcomes for older homeowners. This research addresses a gap in our knowledge of the current situation and pressures for older homeowners and provides an analysis of the experiences of different cohorts within the older population. This research will help us to provide an evidence-based narrative that may be helpful for policy decisions and our wider understanding of the evolving social and economic dynamics older people face, and work continues to implement the Better Later Life strategy.

1.2 Our methods

The methods we used to examine the issue include:

- Rapid desk-based review of recent reports and to establish a framework
- Interviews with Age Concern and the Retirement Commission to get a qualitative understanding of the issues
- Using updated Centrix mortgage data to assess:
 - mortgage stress by age band, gender, region, household type, and other indicators of risk
 - rates of older people entering into reverse mortgage (or similar) agreements
 - an overall picture of arrears and credit scores
 - mortgage balances.



2 Housing and later life – what is the issue?

2.1 Housing and social support for enhanced well-being in later life

New Zealand's superannuation system has evolved from the 1800s through to the Social Security Act of 1938, with changes made in the 1970s that created what we recognise now as New Zealand Superannuation. Alongside this have been the introduction of KiwiSaver and the New Zealand Super Fund to improve the sustainability of retirement income policy.

The assumption in the 'early days' was that people would enter later life with stable relationships, universal healthcare and stable economic conditions with a freehold house, providing a reasonably secure base for retirement that might last 15 years.

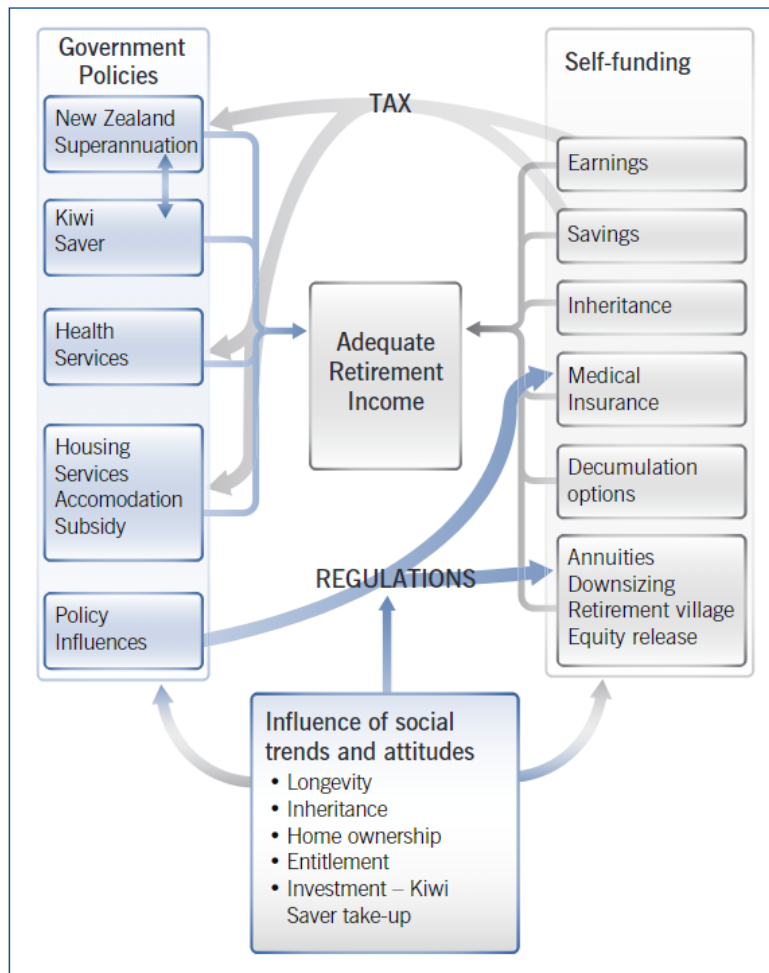
The ageing New Zealand population has put pressure on the ability to fund superannuation. At the same time, a public expectation that the state will provide adequate income in older age remains high, with little support for means testing (NZIER 2018).

New Zealand's healthy life expectancy (HALE) at age 60 stands at 19 years for women and 18 years for men (World Health Organization, n.d.). Living longer in good health can extend working life and years on a fixed income for those not in work. New Zealand has one of the OECD's highest labour market participation rates for people over 65, at 25 percent engaged in part-time or full-time work (OECD 2023). This takes some pressure off sole reliance on state-funded superannuation.

While this report focuses on what updated Centrix data can say about mortgage stress, the 'eco-system' of government health and social policies and self-funded earnings, savings and decumulation options are important for understanding the larger dynamic.



Figure 1 Factors that influence the adequacy of retirement income



Source: Davey and Stephens (2018)

2.2 Housing and living costs for seniors

Research from the Retirement Commission and the New Zealand Treasury in 2022 reveals that 66 percent of seniors own their houses outright, with 13 percent paying a mortgage and 20 percent renting. Less than half of Māori seniors and about one-quarter of Pacific seniors own their homes outright (Morrissey, Reyers, and Gamble 2022).

We know from that research that seniors who pay rent or have a mortgage are more likely than outright owners to spend more than 40 percent of New Zealand Superannuation on housing (Morrissey, Reyers, and Gamble 2022). So, rising mortgage rates put pressure on seniors' budgets. Outright owners have lower housing costs at all ages.

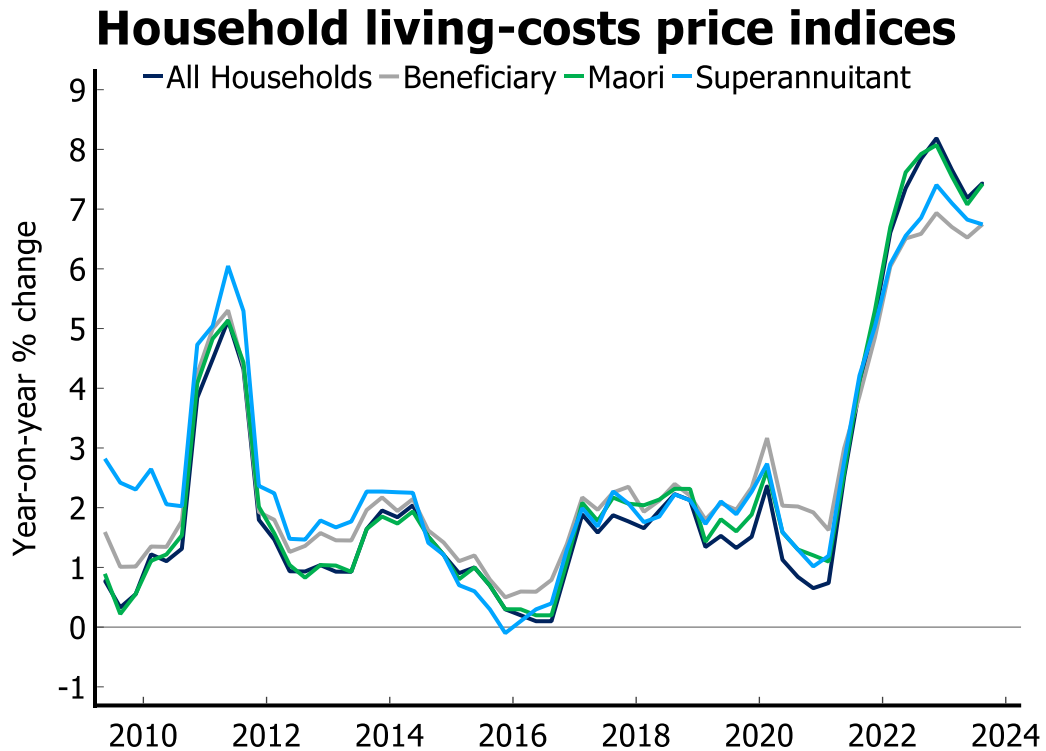
After a long period of economic stability, increases in interest rates have been beneficial for older people with savings. However, increasing mortgage rates has been stressful for older people with mortgages and on low fixed incomes. The average floating mortgage rate went from 4.47 percent in June 2021 to 8.61 percent in October 2023. This is the highest level since 2008 (Reserve Bank of New Zealand 2023).

The overall cost of living has been relatively stable between 2012 and 2020. However, the annual Consumers Price Index inflation escalation since 2021 has also accelerated household cost of living, adding stress for superannuants and beneficiaries on fixed



incomes. While annual consumer price index (CPI) inflation has been easing in recent quarters, the annual increase in household living costs is still at historic high levels, reaching 7.4 per cent for average households and 6.7 percent for beneficiaries and superannuants. Much of this reflected higher costs of interest payments, housing and food.

Figure 2 Household living costs have escalated to historic high levels



Source: Stats NZ, Macrobond

Research from the Retirement Commission shows that 55 percent of working-age adults New Zealanders were struggling financially in 2023. This is made up of respondents reporting that they are ‘starting to sink, or trading water’ (51 percent) and a further 3.5 percent are ‘sinking badly’. This is up 17 percent compared to February 2021 and the highest level since surveying began (Te Ara Ahunga Ora Retirement Commission 2023b).

The Commission groups life after 65 as either:

- ‘distressed’
- ‘exposed’ or
- ‘on track’.

Retirement Commission research on *Older People’s Voices* reveals that 40 percent of people aged 65 and over rely on New Zealand Superannuation as a sole source of income, with 20 percent having a small amount more (Te Ara Ahunga Ora Retirement Commission 2023a). New Zealanders 65 and over have a median weekly income in 2023 of \$475 compared to \$921 for all age groups (Stats NZ, n.d.).

The number of people 65 and over with mortgage debt has grown from 118,000 in 2018 to 134,000 in 2022 (Stock 2022). We also know that the value of this debt is increasing, rising from \$16.9 billion in 2018 to \$23.4 billion in 2022. That means that of the 863,560 (Stats NZ 2023b) aged 65 and older, 16 percent have mortgages. While this is in line with population growth and increasing house prices, it still reflects a growing issue of outstanding mortgages.

With around 52 percent of all mortgages due for repricing over the coming twelve months from September 2023, households will be reining in discretionary spending in the face of significantly higher mortgage repayments (NZIER 2023).

2.3 Decumulation

Decumulation is the process of drawing down accumulated savings in retirement to use as income for day-to-day living. Decumulation is important for financial security and peace of mind. Mortgages and changes in interest rates can affect decumulation plans.

Several factors influence the dynamic for people entering into older age with mortgage debt. Life changes such as relationship splits in later life can cause financial stress, and these numbers are increasing, with 50 percent of divorced men over 47 and 50 percent of divorced women over 44 in 2022 (Stats NZ 2023a). This is up from 42 and 39 respectively in 2000. Meanwhile, there are more options for accessing capital to finance daily living with reverse mortgage agreements and other 'relief' policies such as rates deferral and rate rebates. \$73.1 million was spent on 109,826 rate rebates in 2022 (data.govt.nz 2023).

While mortgages are getting paid, there may be underlying stress. This stress may be directly related to well-being, such as going without heating, food or social activities. This 'distress' may be indirect in the form of foregoing insurance and upkeep that leaves seniors 'exposed'.

Government regulations help protect borrowers from being put into financial difficulty. Lenders are regulated by the Credit Contracts and Consumer Finance Act. The [Responsible Lending Code](#) serves as a good practice and principles-based guide. While it may restrict access to capital, it aims to ensure borrowers are not stretched beyond their means.

There is limited data on reverse mortgages. In New Zealand, few banks and few products are available. Heartland, the main lender, reports customers borrowing an average of \$117,000, representing about 10 percent of the value of their home. The average borrower was 78 years old. New Zealanders who have cashed in on the product now owe \$721 million (Hatton 2022). Reverse mortgage rates tend to be higher than standard mortgage rates, and there are restrictions on the percentage of house value that can be borrowed. The market is expected to grow and product offerings to mature (Ruth 2023). In the ten years to June 2023, Heartland Bank reports having more than 20,000 reverse mortgage customers. The average loan was just under \$88,000. The main reasons are home improvements, debt consolidation, and covering everyday expenses. (Edmunds 2024).

While many seniors are financially secure, shedding light on mortgage stress allows us to better understand the distributional impacts of mortgage rates as one of the greatest single sources of financial stress.

3 The trend in Aotearoa New Zealand reveals a small problem getting bigger

3.1 Analysis of Centrix data by age groups 50 and over

We know from demographic projections that the older aged cohorts, where fixed incomes and earning potential are limited, are growing. The table below shows how the 5-year age bands have grown and are projected to grow.

Table 1 Cohort size changes in the decade to 2033-2033

Age	2013	2023	2033	10 yr % change
50–54	313,670	334,100	318,000	-4.8%
55–59	271,760	317,400	298,500	-6.0%
60–64	241,010	312,200	326,200	4.5%
65–69	205,760	264,700	307,800	16.3%
70–74	154,040	222,500	291,100	30.8%
75–79	109,340	173,300	230,000	32.7%
80–84	82,120	112,200	169,600	51.2%
85–89	49,780	60,400	102,700	70.0%
90–94	19,940	27,000	40,100	48.5%
95+	5,010	8,600	11,200	30.2%

Source: Stats NZ

In the report sections that follow, we examine Centrix data by:

- age
- gender
- regions.

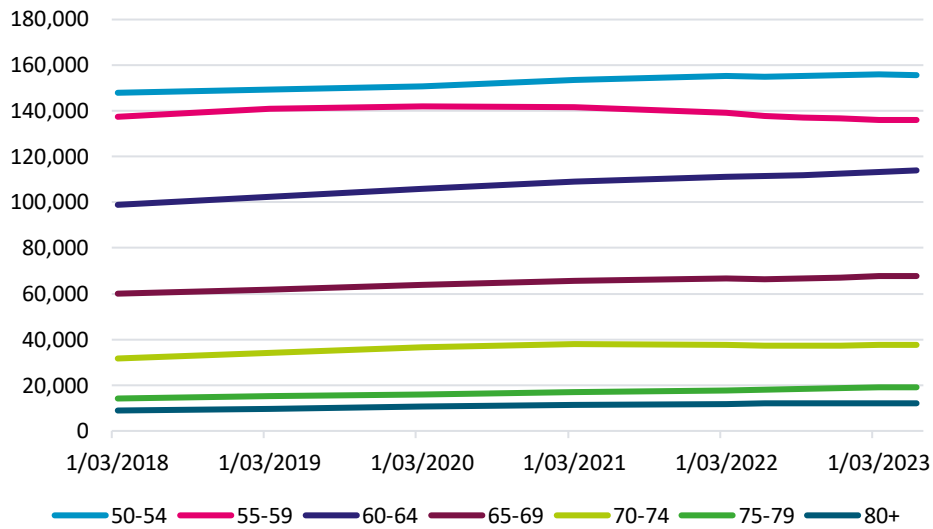
The Centrix data is in nominal dollars over the five-year period.

Additional tables are appended for household type, mortgage type and risk tier.

3.1.1 Age group data analysis

The number of mortgage borrowers has remained relatively static, with a slight upward trend over the last five years. Younger age groups contain the largest number of mortgage borrowers.

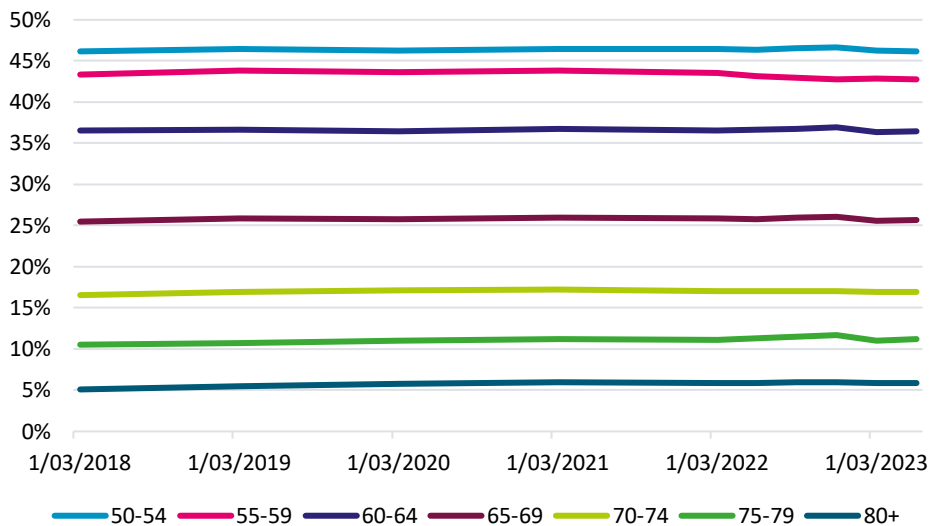
Figure 3 Number of borrowers by age group



Source: Centrix

When adjusted for the percentage of population for each age group, we see the trend line flatten.

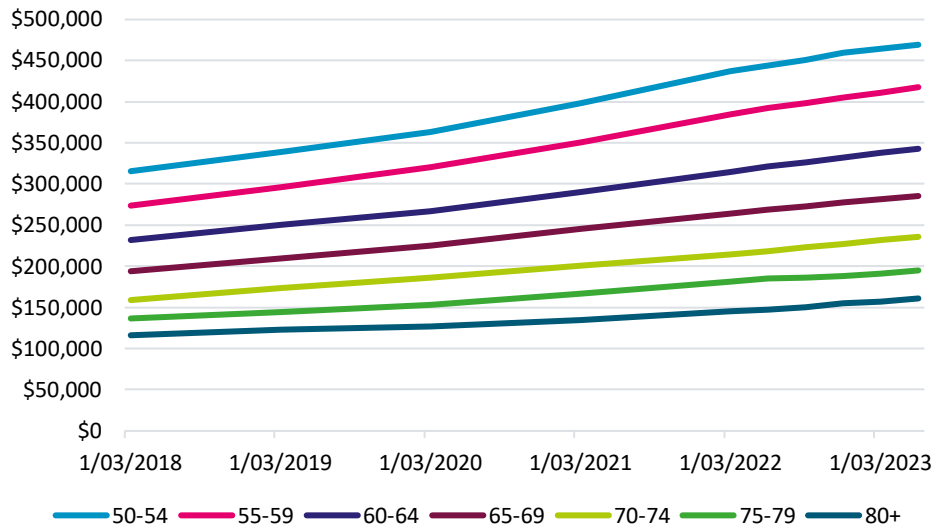
Figure 4 Percentage of population with a mortgage by age group



Source: Centrix

Average mortgage exposure is greatest in the younger age groups, with an upward trend across all age groups.

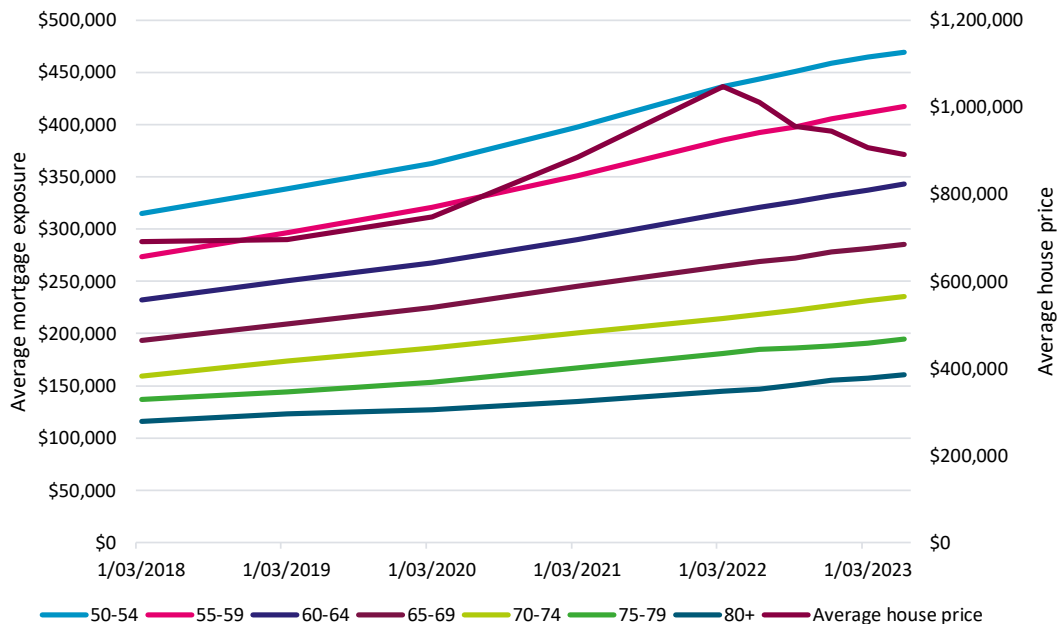
Figure 5 Average mortgage exposure by age group



Source: Centrix

The increase in the average house price runs parallel to the increased mortgage exposure, as might be expected, to the point that the average house price dropped in 2022. This may be due to the fixed nature of some mortgages. In fact, as indicated by the Reserve Bank’s data on mortgage lending, there is an upward trend in the proportion of mortgages in New Zealand on fixed terms (see Figure 7).

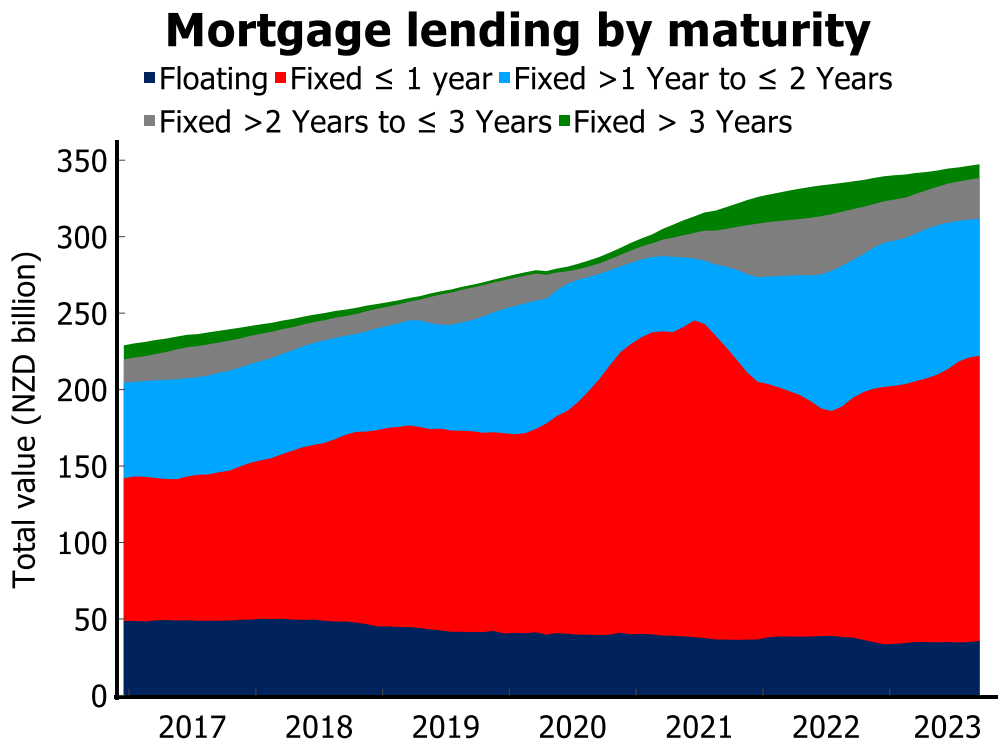
Figure 6 Average mortgage exposure by age group



Source: Centrix, QV



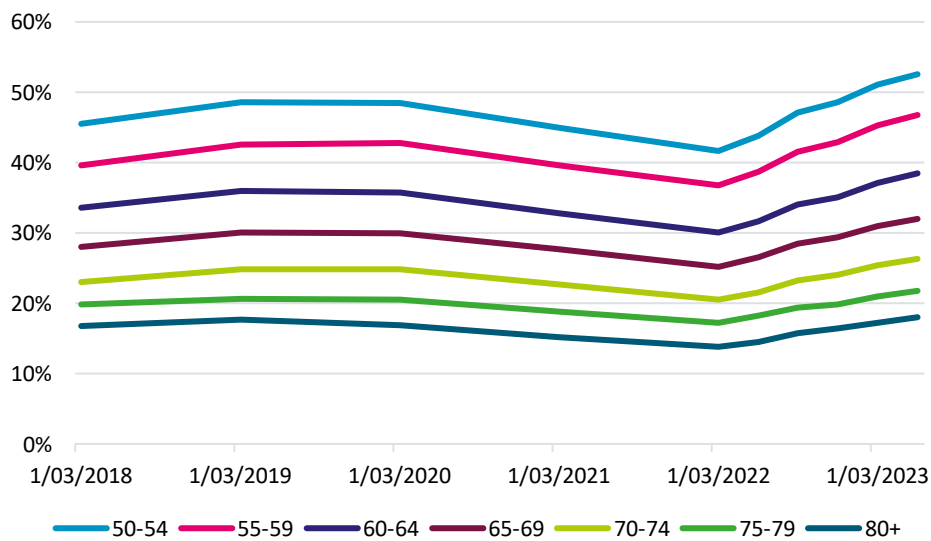
Figure 7 The proportion of fixed-term mortgages in New Zealand is increasing



Source: RBNZ, Macrobond

Mortgage exposure has increased as a percentage of the average house price to coincide with a drop in the average house price in 2022.

Figure 8 Mortgage exposure as a percentage of average house price by age group

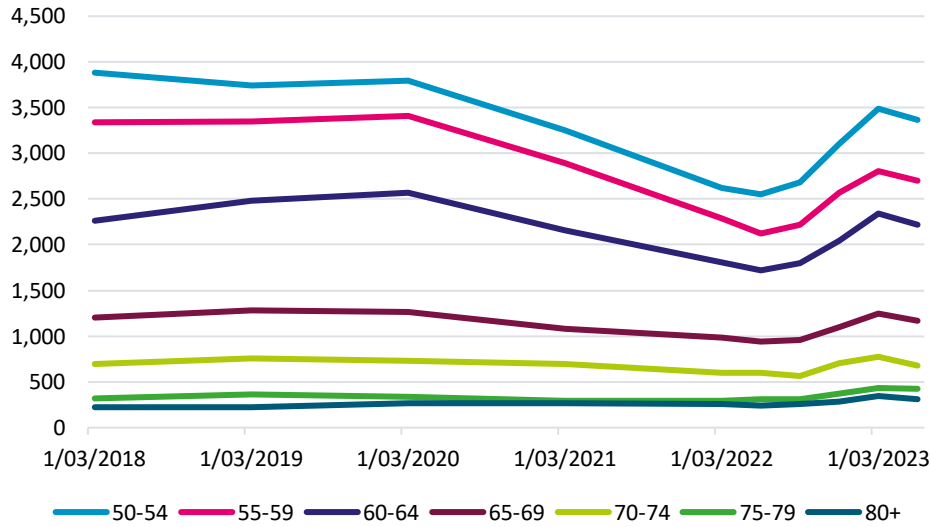


Source: Centrix, QV



The number of borrowers in arrears had trended downwards and, since 2022, is back to levels seen in 2018.

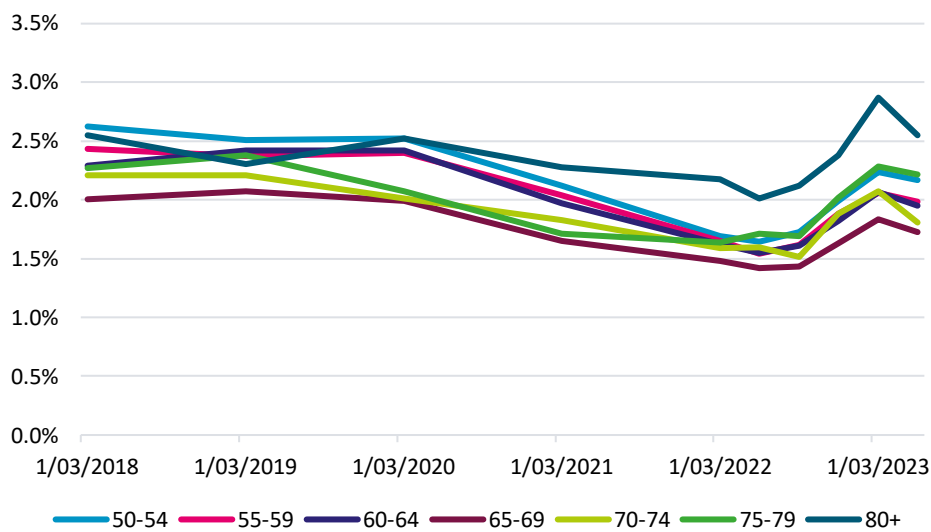
Figure 9 Number of borrowers with a mortgage in arrears by age group



Source: Centrix

As a percentage of borrowers, those aged 80 years or more have a greater percentage of borrowers in arrears. It is likely that banks will allow for more consideration for late life seniors who are behind on their mortgage repayments. By age 80, there is a relatively higher probability of moving to assisted living, as well as the impact that foreclosing on seniors' homes, would have at this late vulnerable stage of life.

Figure 10 Percentage of borrowers in arrears by age group

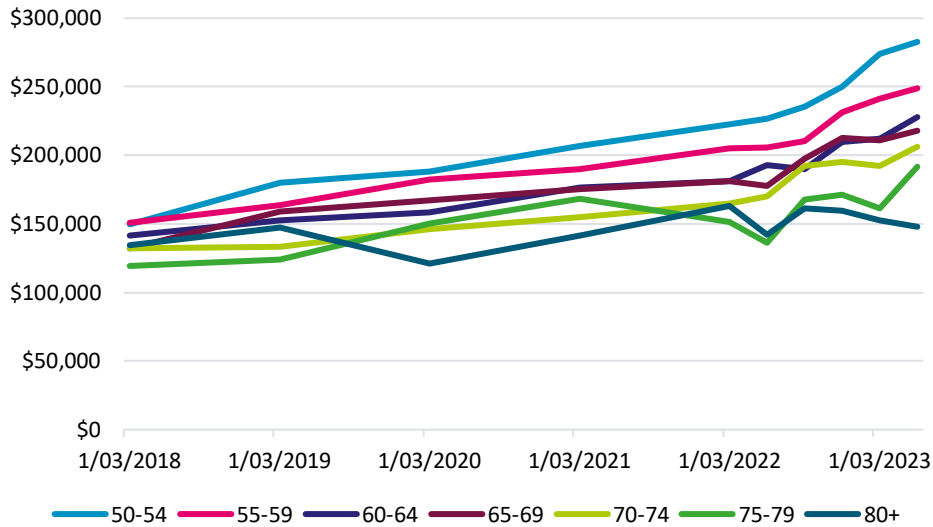


Source: Centrix



The average value of the arrears in 2023 has increased relative to 2018 for all age groups aged 50 or above.

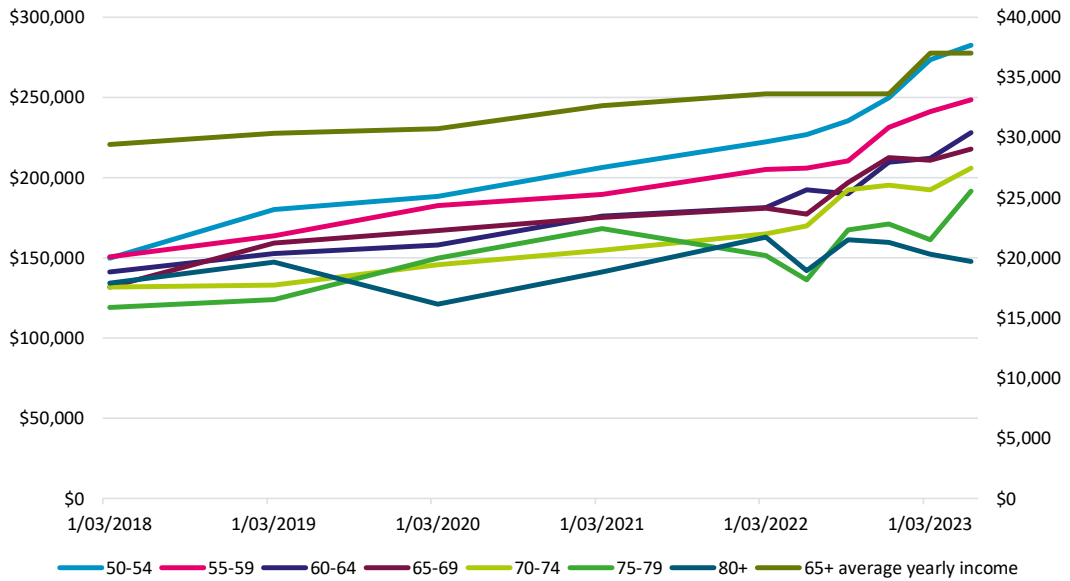
Figure 11 Average value of mortgage exposure in arrears per borrower by age group



Source: Centrix

Compared with the average income for the 65+ age groups, the arrears per borrower track with the increased income boost in 2022.

Figure 12 Average value of mortgage exposure in arrears per borrower by age group

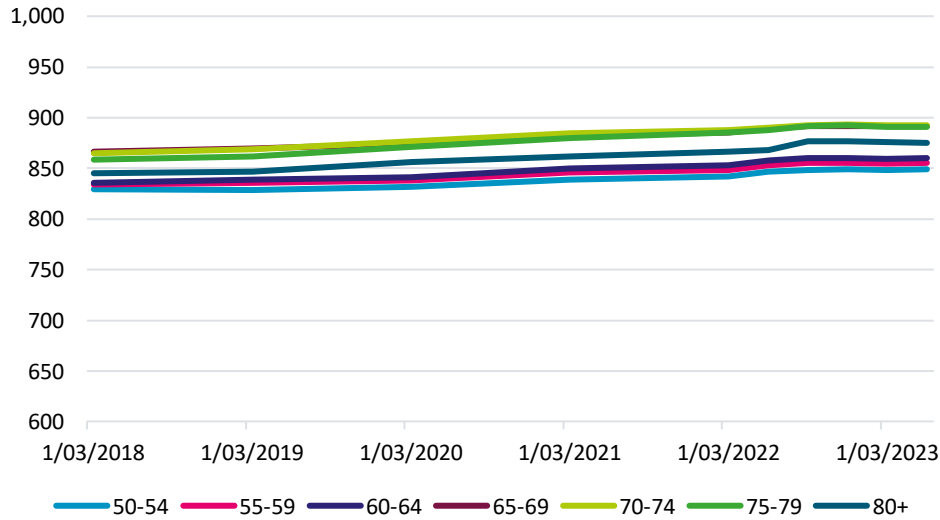


Source: Centrix, Stats NZ



The average credit scores have remained roughly the same, with a small increase in average credit scores across all age groups between 2018 and 2023.

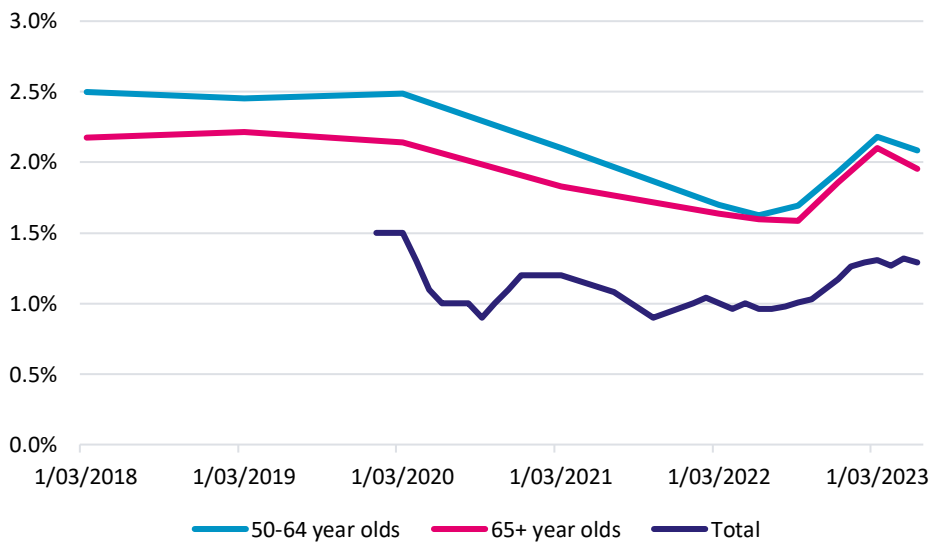
Figure 13 Average credit score of borrowers by age group



Source: Centrix

The proportion of those aged 65 or older in mortgage arrears is almost double the proportion of total New Zealand mortgages in arrears.

Figure 14 Percentage of mortgage exposure in arrears by high-level age group of primary borrower



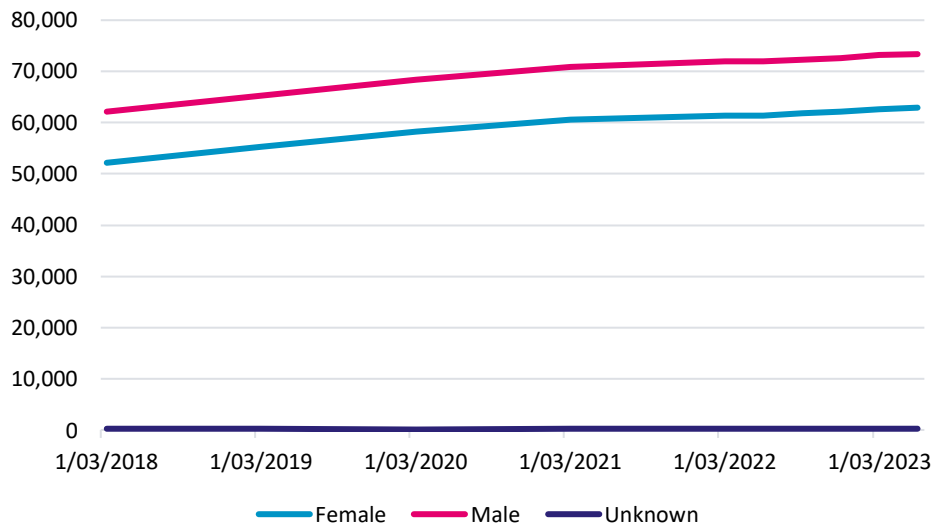
Source: Centrix



3.1.2 Gender data analysis

More males than females hold mortgages, with the gap static over the five years for the 65+ age group.

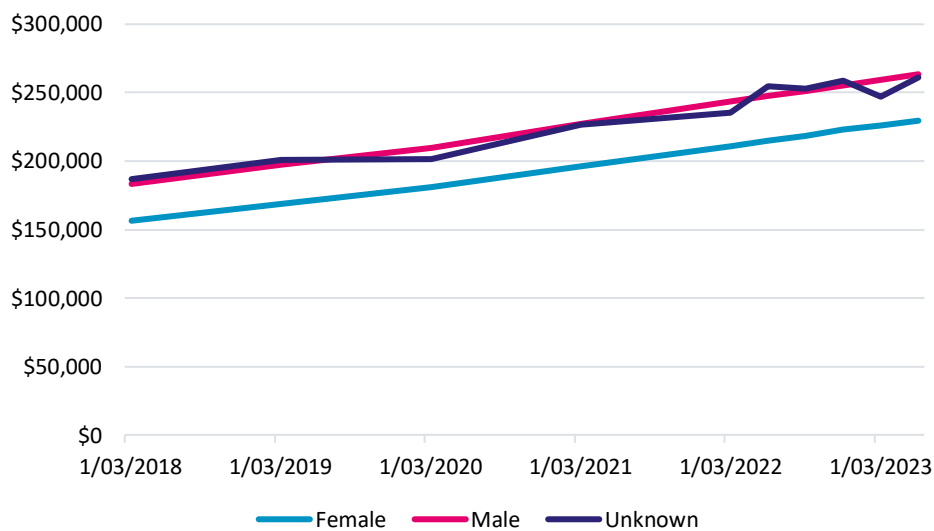
Figure 15 Number of borrowers aged 65 and older, by gender



Source: Centrix

The average mortgage exposure is greater for males than females for the 65+ age group.

Figure 16 Average mortgage exposure per borrower aged 65 and older by gender

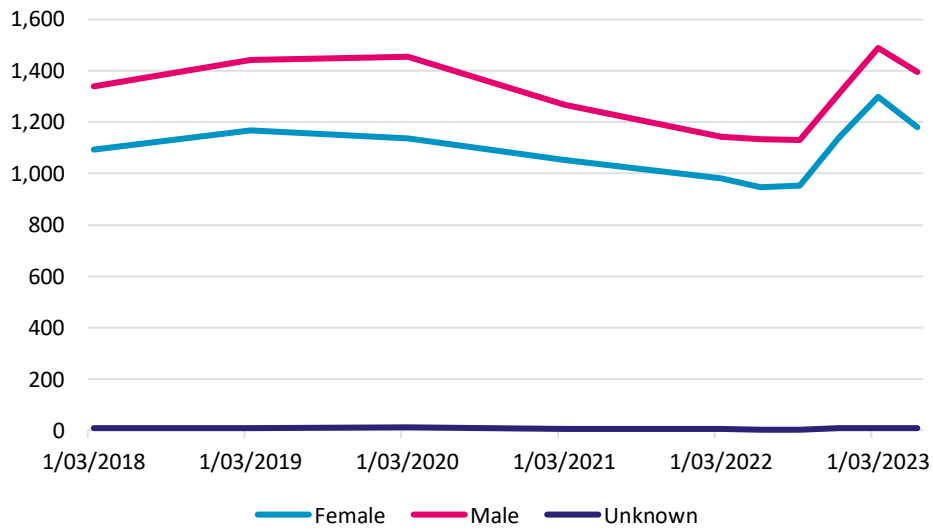


Source: Centrix

There are more males than females in arrears, with the gap stable for those aged 65 or older.



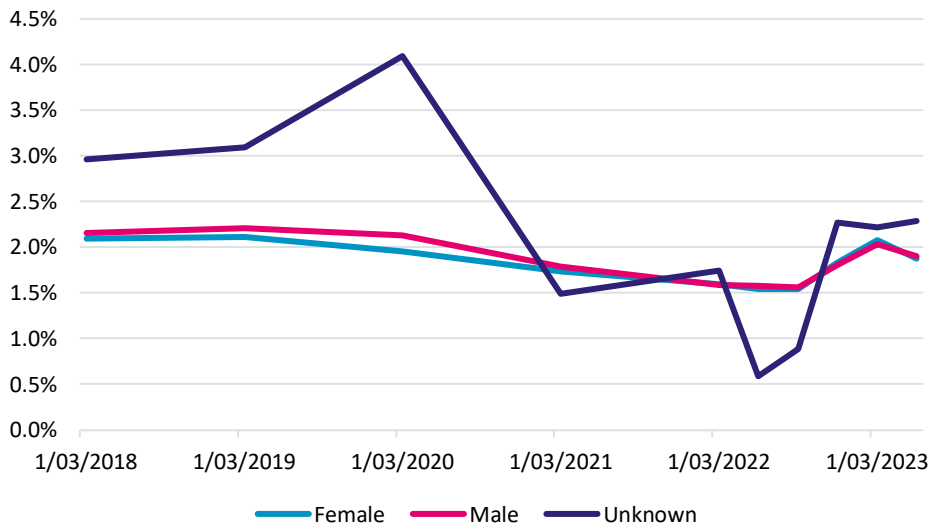
Figure 17 Number of borrowers with a mortgage in arrears aged 65 and older by gender



Source: Centrix

The proportions of those in arrears for males and females aged 65 years or older almost coincide.

Figure 18 Percentage of borrowers aged 65 and older with a mortgage in arrears by gender

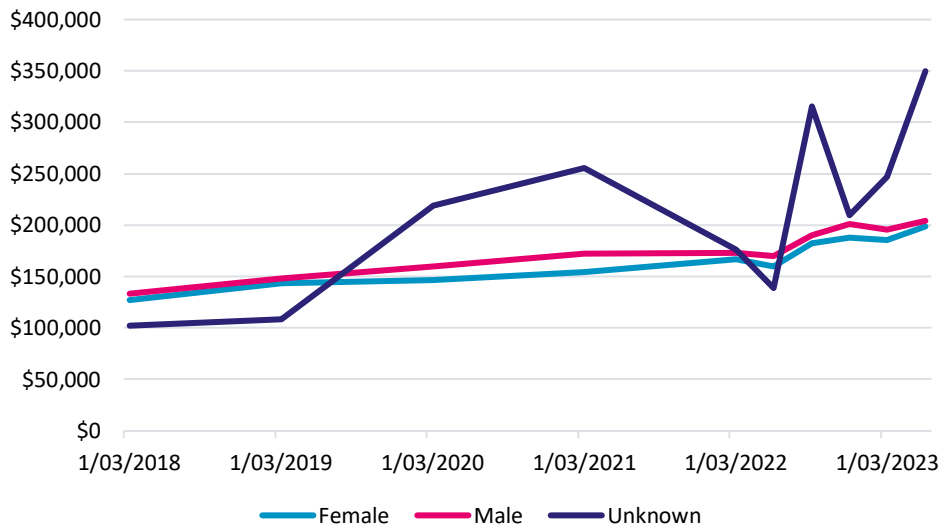


Source: Centrix

The average value in arrears by gender is nearly identical for the 65+ age group.



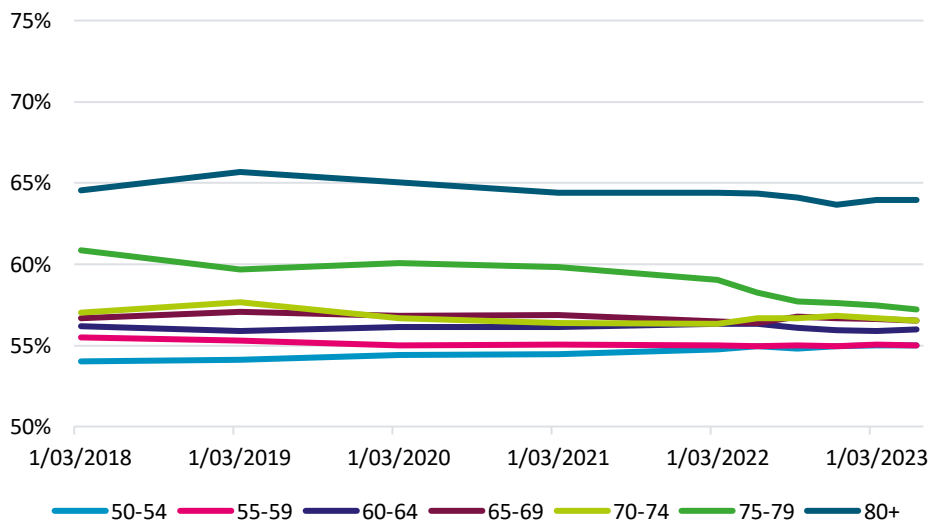
Figure 19 Average value of mortgage exposure in arrears per borrower aged 65 and older by gender



Source: Centrix

For mortgages that are held by an individual (rather than a joint mortgage), the percentage that is held by females has increased slightly in the 50 to 54-year-old age group and has remained the same for 55 to 59, 60 to 64, 65 to 69 and 70 to 74-year-olds, and has decreased for 75 to 79 and 80+-year-olds.

Figure 20 Percentage of individual mortgages held by females by age group



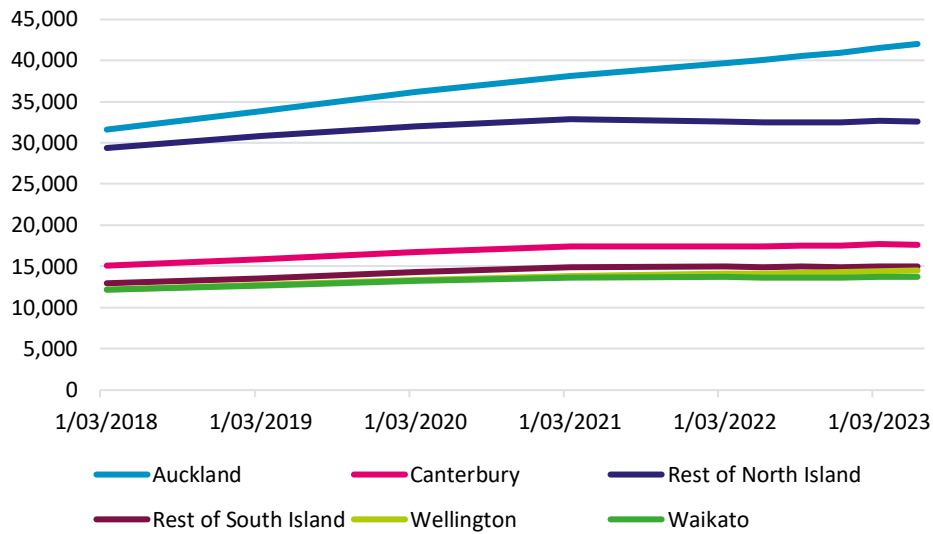
Source: Centrix

3.1.3 Regional data analysis

Most borrowers aged 65 and older are in Auckland or parts of the North Island outside Waikato and Wellington.



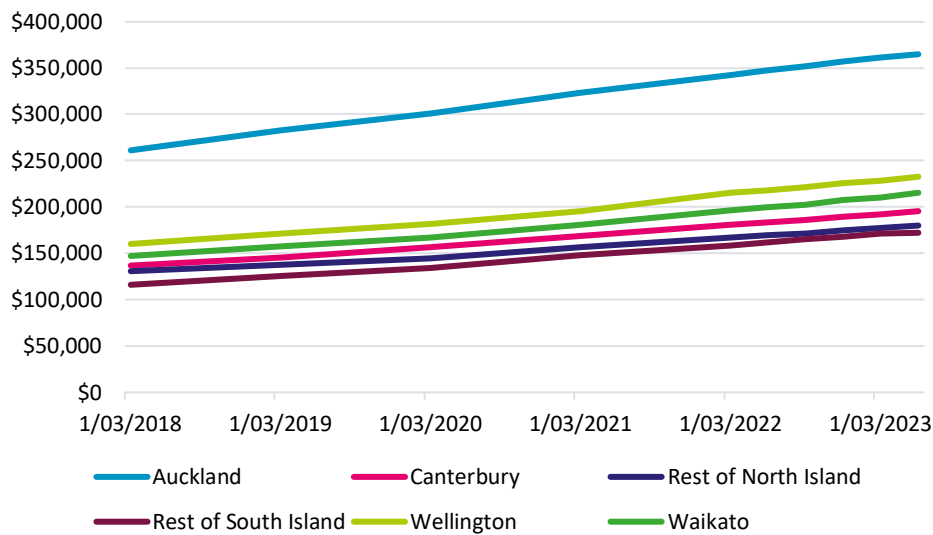
Figure 21 Number of borrowers aged 65 and older by region



Source: Centrix

The greatest average mortgage exposure for the 65+ age group is in Auckland. Other regions have similar levels of exposure.

Figure 22 Average mortgage exposure per borrower aged 65 and older by region

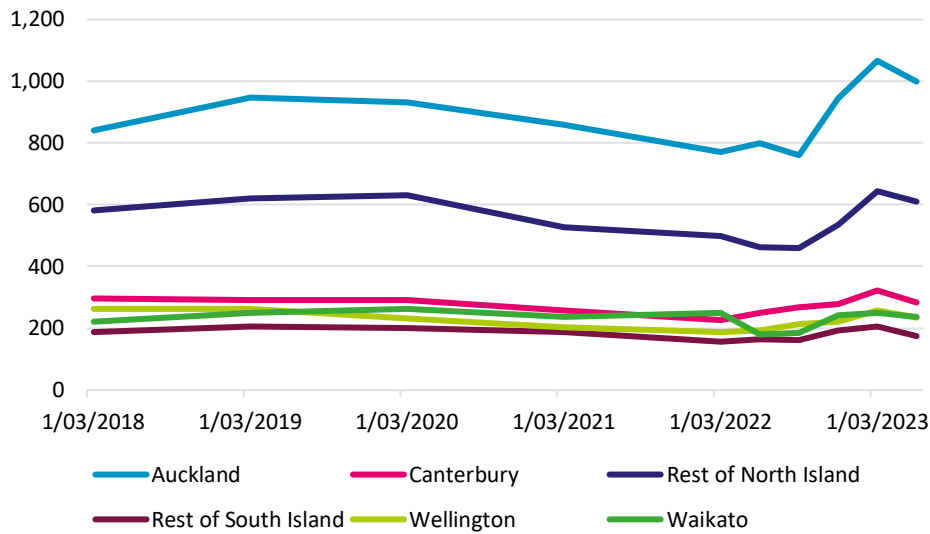


Source: Centrix

Auckland and the North Island outside Waikato and Wellington have the greatest number of borrowers 65+ in arrears.



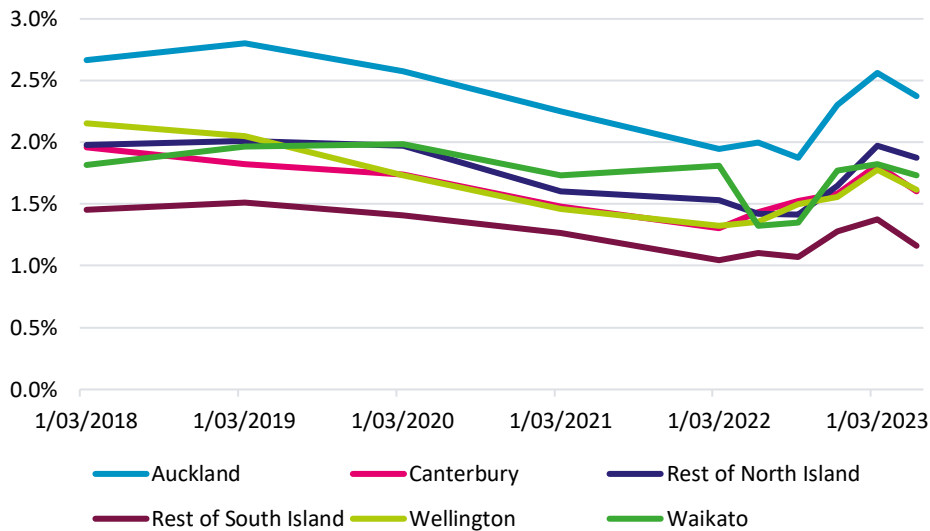
Figure 23 Number of borrowers with a mortgage in arrears aged 65 and older by region



Source: Centrix

The greatest percentage of borrowers 65+ in arrears is in Auckland. South Island borrowers in the South Island outside Canterbury had the least.

Figure 24 Percentage of borrowers aged 65 and older with a mortgage in arrears by region

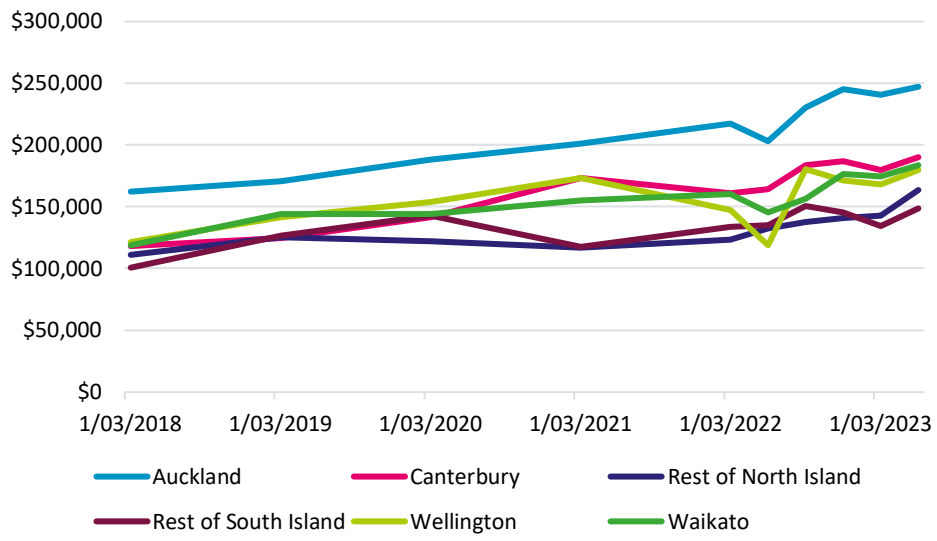


Source: Centrix

The average value of exposure in arrears is greatest in Auckland. All other regions had similar average arrears exposure.



Figure 25 Average value of mortgage exposure in arrears per borrower aged 65 and older by region



Source: Centrix



5 Recommendations

In light of the main findings...

- The number of borrowers in age groups over 50 is relatively static.
- However, the amount of mortgage exposure in the 50+ age groups has increased significantly in the last five years, including 65+ groups who are more likely to be on fixed incomes and have lower earnings potential.
- This trend of 50+ is likely to lead to greater numbers of 65+ over the next 10–15 years, which will require monitoring and, potentially, intervention.
- The percentage of mortgages in arrears for the 50+ age groups over the last five years ranged between 2 percent and 2.5 percent compared to a range of 1 to 1.5 percent for all mortgages.
- It appears that lenders are effectively managing mortgage risk from a lender perspective based on the containment of arrears as a percentage of mortgage holders.

Our recommendations are:

- Encourage government agencies to maintain a watching brief on mortgages as a source of stress for seniors.
- Given the social and economic evolution of senior well-being, the extent of any dynamic in which some mortgage holders have to exit their mortgages, freeing up existing housing capital and downsizing, moving to rental accommodation or taking up other options be investigated.
- Link public and privately held data sets to assist with a better understanding of the dynamic between mortgage stress and overall well-being. For example, being able to link the Centrix data with sociodemographic and household economic data would help with understanding the security of tenure, household income and other variables. This may be possible as part of the Statistics New Zealand Integrated Data Infrastructure.



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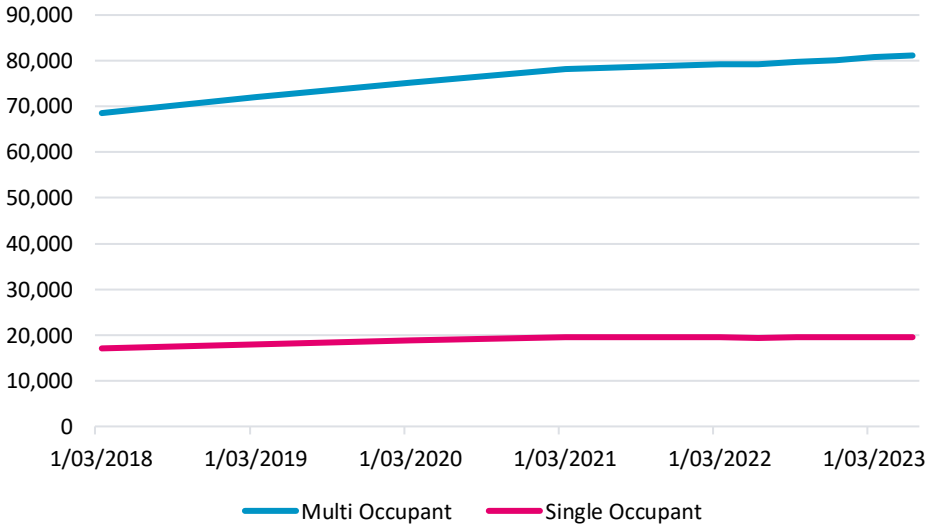
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Tables by household type, mortgage type and risk tier



Appendix A Tables by household type, mortgage type and risk tier

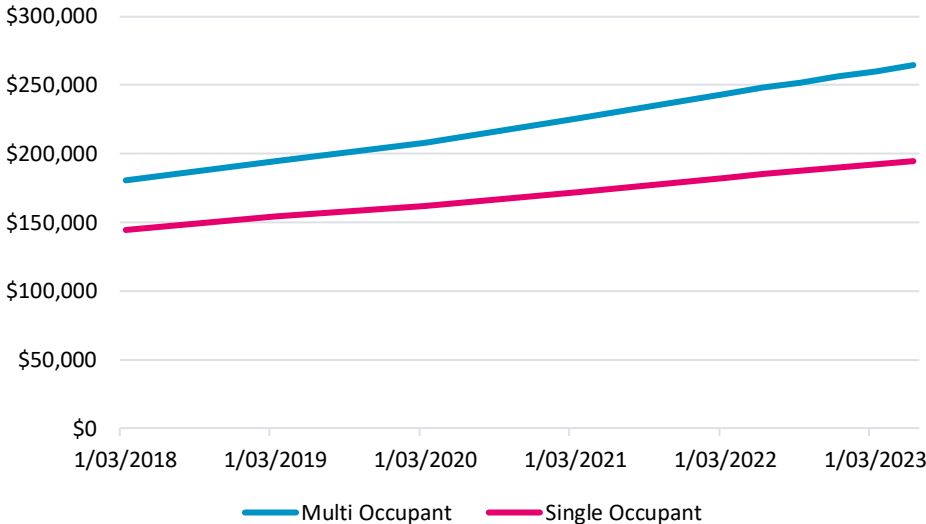
A.1 Household type

Figure 26 Number of mortgages with a primary borrower aged 65 and older by household type



Source: Centrix

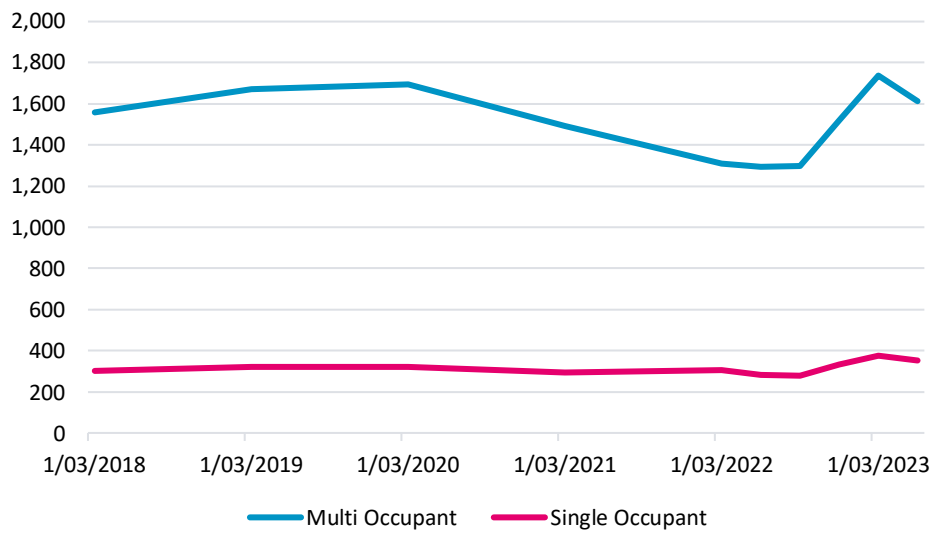
Figure 27 Average mortgage exposure with a primary borrower aged 65 and older by household type



Source: Centrix

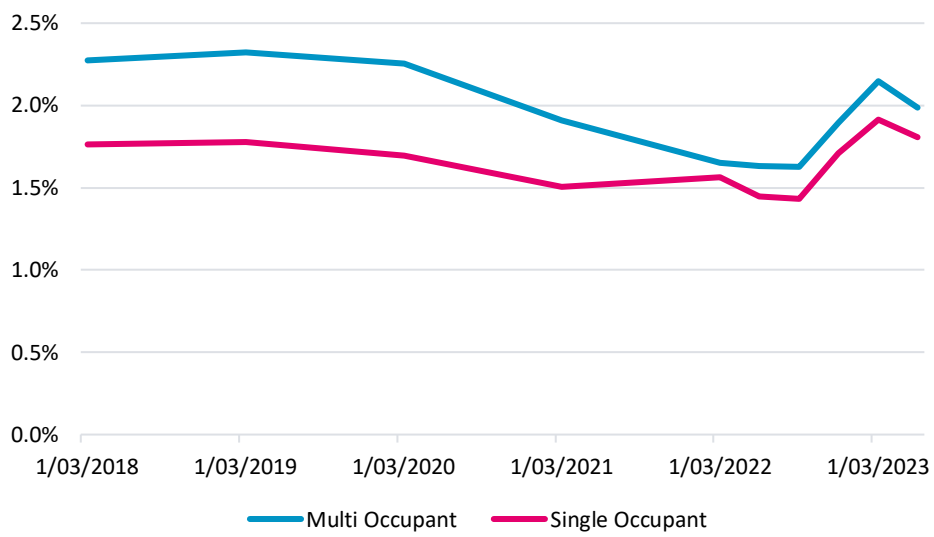


Figure 28 Number of mortgages in arrears with a primary borrower aged 65 and older by household type



Source: Centrix

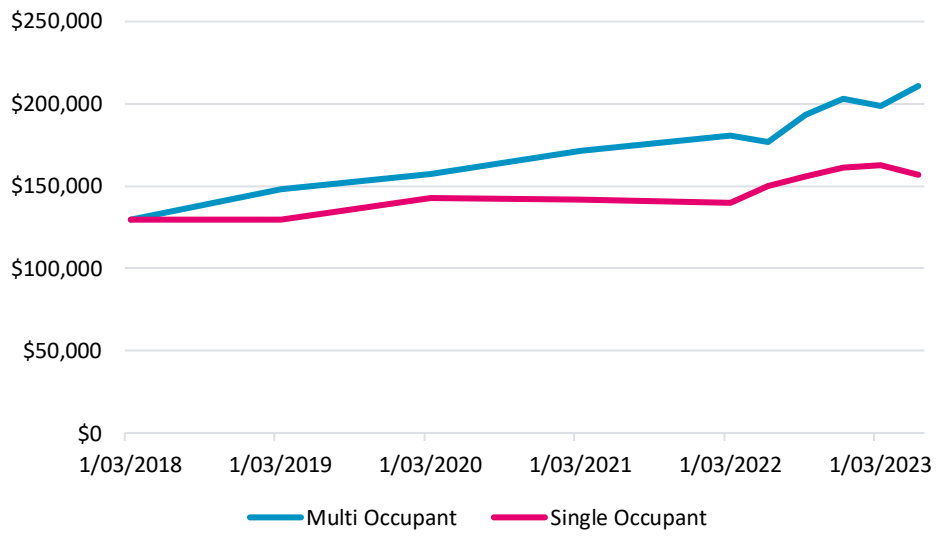
Figure 29 Percentage of mortgages in arrears with a primary borrower aged 65 and older by household type



Source: Centrix



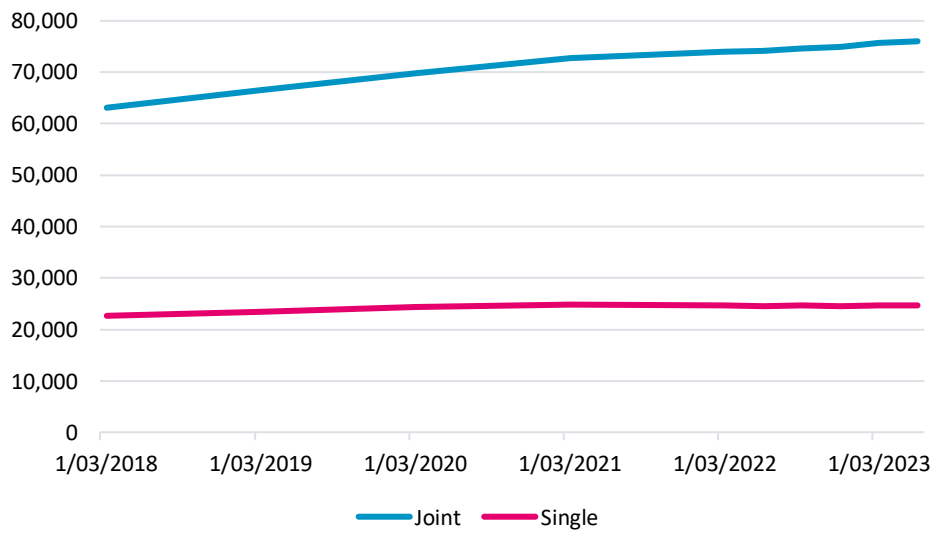
Figure 30 Average value of mortgages in arrears with a primary borrower aged 65 and older, by household type



Source: Centrix

A.2 Mortgage type

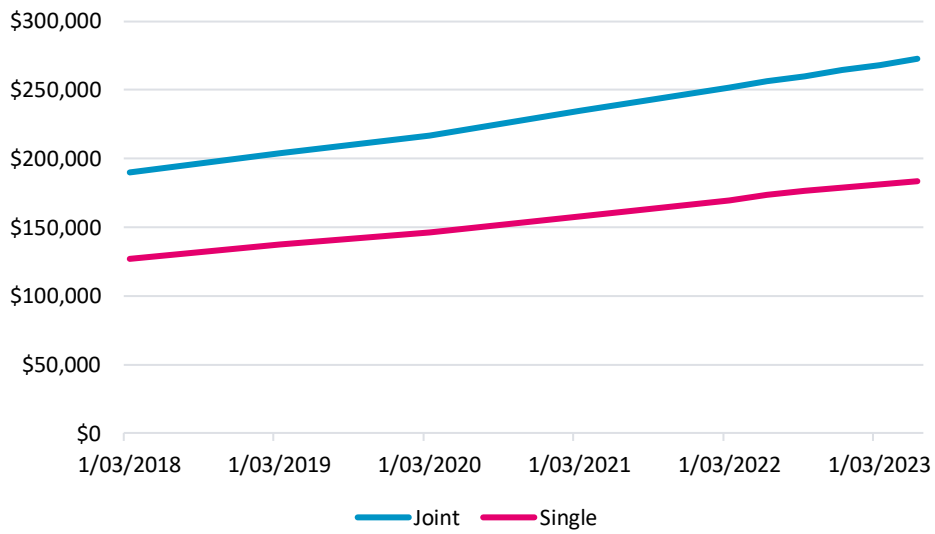
Figure 31 Number of mortgages with a primary borrower aged 65 and older by mortgage type



Source: Centrix

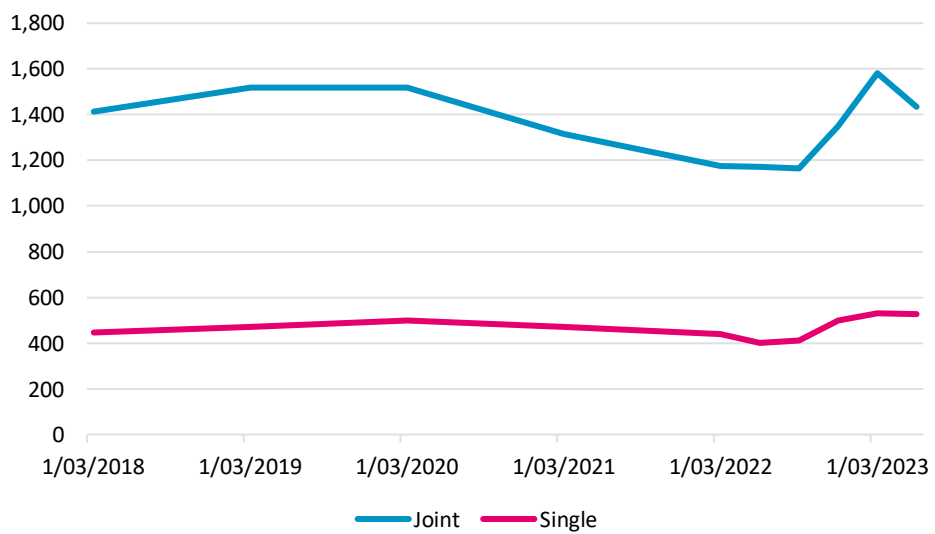


Figure 32 Average mortgage exposure with a primary borrower aged 65 and older by mortgage type



Source: Centrix

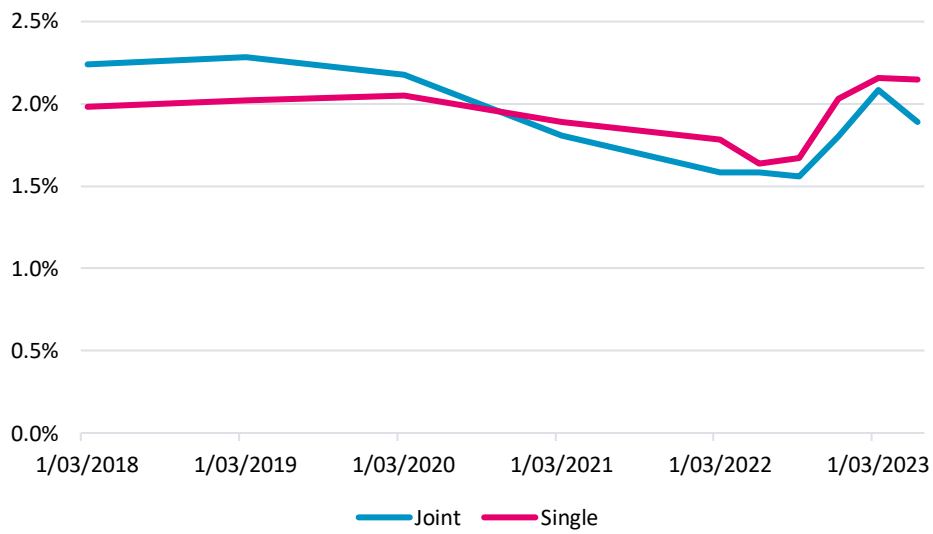
Figure 33 Number of mortgages in arrears with a primary borrower aged 65 and older by mortgage type



Source: Centrix

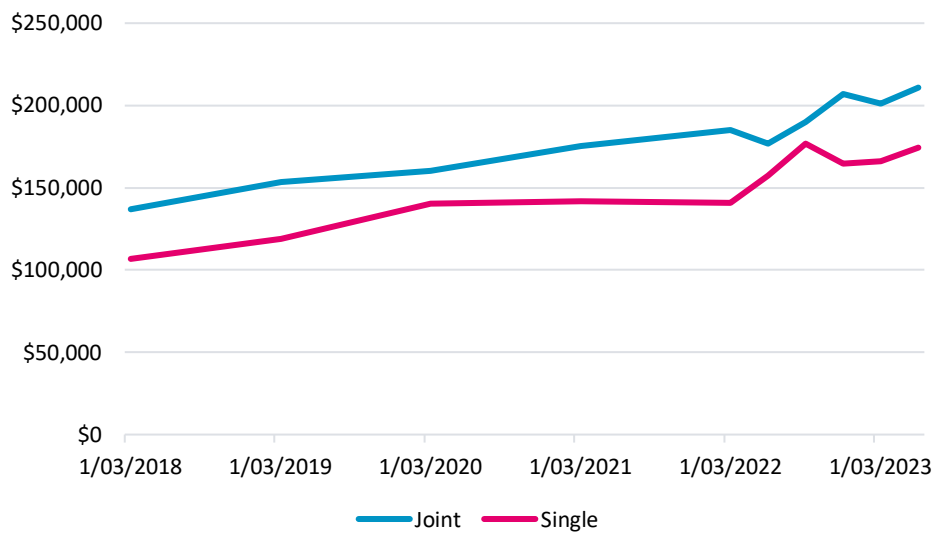


Figure 34 Percentage of mortgages in arrears with a primary borrower aged 65 and older by mortgage type



Source: Centrix

Figure 35 Average value of mortgages in arrears with a primary borrower aged 65 and older, by household type



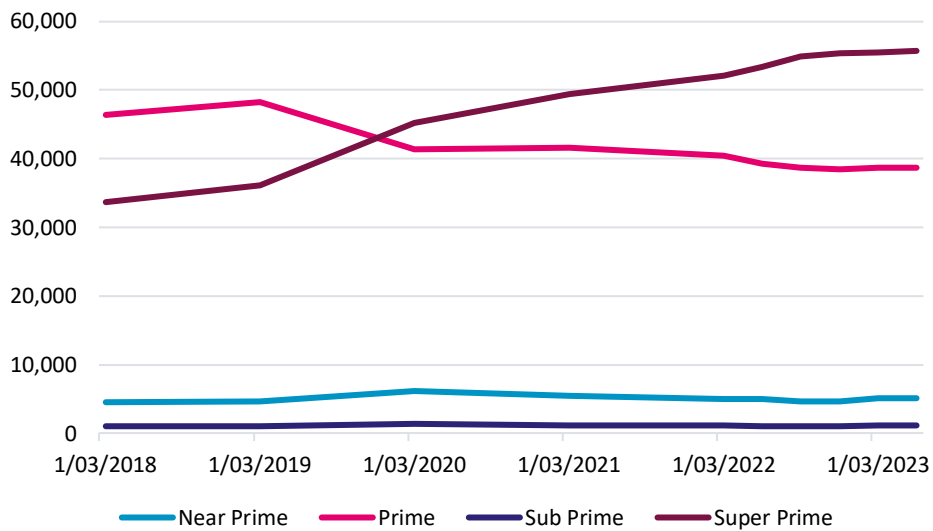
Source: Centrix



A.3 Risk tier

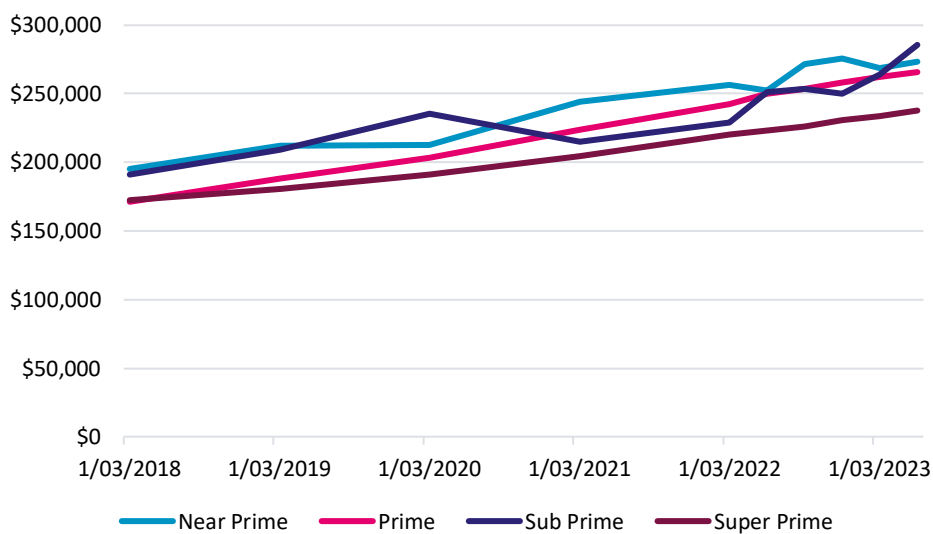
The risk tiers used are from the Centrix data and are based on the credit score of the primary borrower on the mortgage. Subprime mortgages have a credit score between 1 and 499, near prime mortgages have a credit score between 500 and 699, prime mortgages have a credit score between 700 and 899 and super prime mortgages have a credit score between 900 and 999.

Figure 36 Number of mortgages with a primary borrower aged 65 and older by risk tier



Source: Centrix

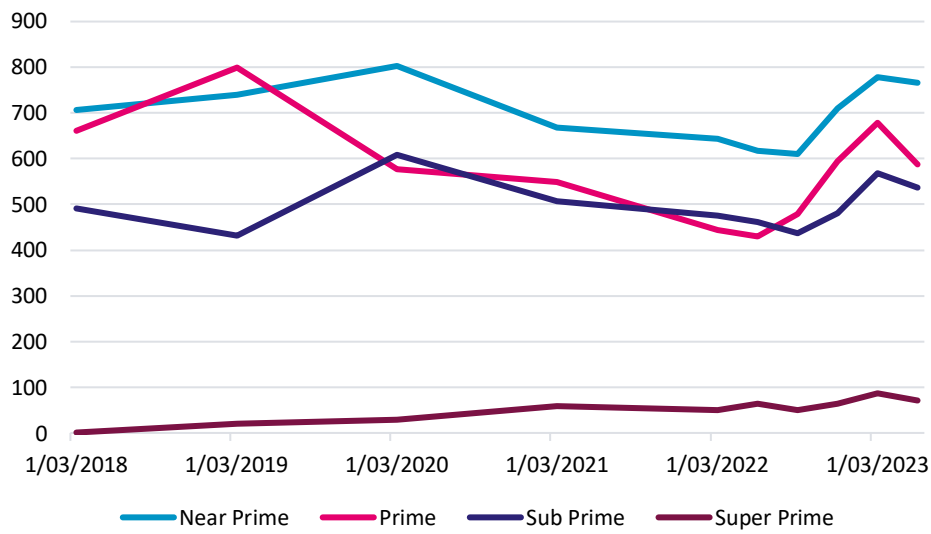
Figure 37 Average mortgage exposure with a primary borrower aged 65 and older by risk tier



Source: Centrix

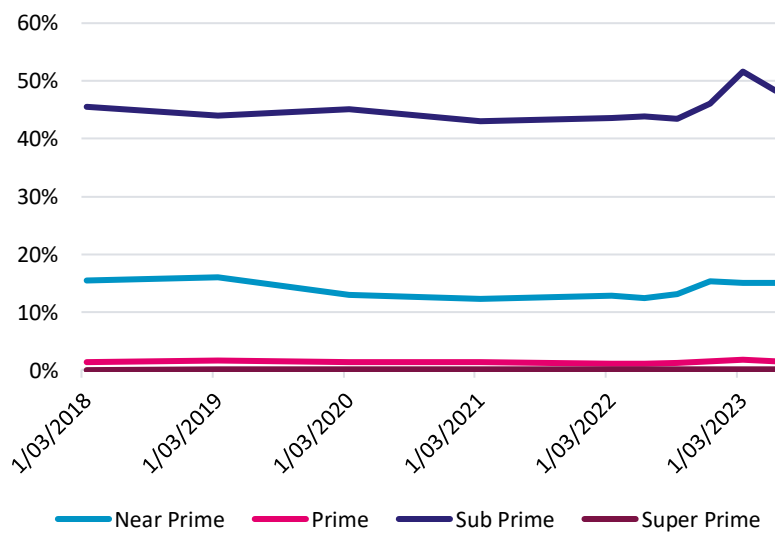


Figure 38 Number of mortgages in arrears with a primary borrower aged 65 and older by risk tier



Source: Centrix

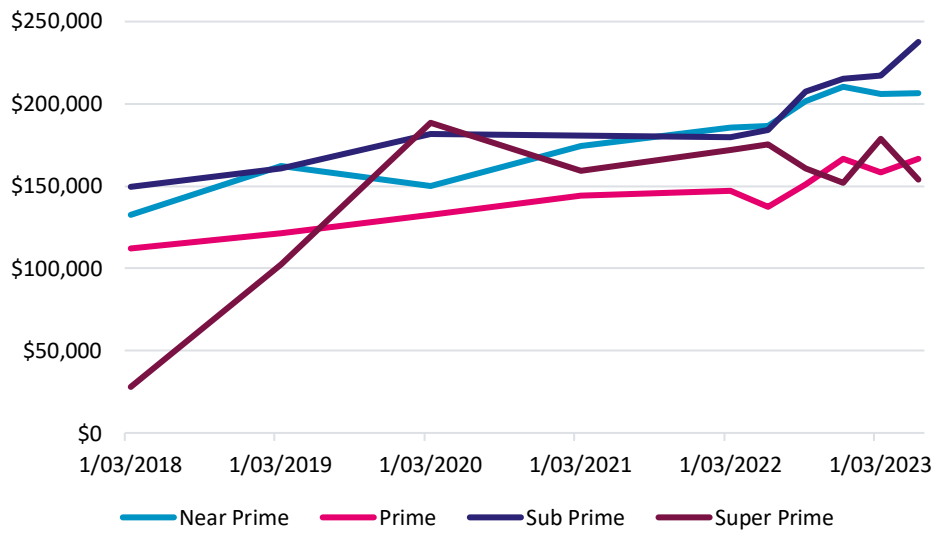
Figure 39 Percentage of mortgages in arrears with a primary borrower aged 65 and older by risk tier



Source: Centrix



Figure 40 Average value of mortgages in arrears with a primary borrower aged 65 and older by risk tier



Source: Centrix

