Journal of Pension Economics and Finance (2022), **21**, 298–300
doi:10.1017/S1474747221000135

CAMBRIDGE
UNIVERSITY PRESS

BOOK REVIEW

Old-Age Provision and Homeownership – Fiscal Incentives and Other Public Policy Options

Eckardt, M., Dötsch, J., & Okruch, S. (eds) Springer International Publishing, 2018

Akshay Shanker

University of New South Wales, Sydney, Australia

(First published online 29 March 2021)

Due to an ageing population, a larger and larger share of individuals in Europe and across the developed world will come to depend on retirement income, placing significant pressure on publicly funded pensions. As a result, discussion of retirement policy now includes not only public pensions, but private and occupational pensions and housing as forms of retirement saving and sources of retirement income. However, little is known about how public pensions (both publicly funded and contributory pensions), occupational and private pensions and housing interact. Retirement policy outcomes, in terms of income adequacy, equity and fiscal sustainability, will depend on the economic and behavioural relationships between these three potential sources of retirement income and the diverse policy and institutional contexts within countries. This book provides insight into the policy and institutional context across Europe by collecting eight papers, six of which are country case studies of Germany, Hungary, Ireland, Italy, the Netherlands and the United Kingdom (UK).

The book is structured in four parts. Part I consists of two papers and overviews pensions and homeownership across Europe. Part II focuses on case-studies of countries with high home-ownership and well-developed private and/or occupational pension markets (Ireland, the Netherlands and the UK), part III collects case-studies on countries with high-home ownership rates yet under-developed private and occupational pension systems (Hungary and Italy) and part IV gives a case study of Germany, with low home-ownership and an under-developed private and occupational pension system. Each case study details the historical trends and policy and institutional state of play regarding public pensions, occupational and private pensions and the housing and mortgage market.

The first paper in part I by Eckardt summarizes data on household asset allocation, and it is striking to see the high levels of housing assets as a proportion of household wealth, with housing assets accounting for approximately 80% of household wealth across Europe. While housing as a share of household assets is consistent across Europe, there is diversity in the proportion of people owning a house, participation rates in mortgages and the age profile of homeownership, suggesting how differences in policies and social context may shape the distribution of housing and mortgaging behaviour. The high levels of housing assets in household balance sheets along with the dual role that housing can play – a form of shelter and a store of wealth for retirement – points to why housing is an important consideration for retirement policy making. However, Eckardt argues that little is known about the economic interaction between housing and pensions. In particular, whether housing substitutes or complements pension saving remains a question open to further research.

In the second paper of part I, Megyeri analyses the relationship between old age poverty and old-age home-ownership in Europe. The paper shows the risk of old age poverty is higher amongst single-person households, women and those above 75 years of age. While the risk of poverty amongst home-owners is lower, it is surprisingly only slightly lower (13% amongst homeowners compared to 13.8%

overall). The authors also examine the cross-country relationship between poverty risk and home-ownership; the cross-country analysis did not suggest a strong correlation between old-age home-ownership and poverty but did identify a cluster of countries with high home-ownership and high poverty (including Latvia, Croatia, Bulgaria and Romania) which could be a target for policies that allow the elderly to derive income by liquidating part of their real assets.

Three broad policy challenges and questions emerge from the case studies presented in part II, part III and part IV of the book. The first challenge concerns achieving efficient but also equitable non-public, occupational pension coverage in diverse labour markets, since occupational pension coverage is tied to the employment status of workers. While Ireland achieved a somewhat high level of occupational and personal pension coverage, Jaiyawala *et al.* show how coverage in Ireland has recently fallen, with coverage at the lower end of the income distribution substantially lower. In the UK, because the net replacement rate from mandatory pension schemes remains low (less than 30% of pre-retirement income), automatic enrolment into occupational pensions was recently introduced. Automatic enrolment resulted in an increase in the coverage of occupational pensions (Sharma *et al.*); however, the distributional effects remain to be seen. In Italy, dominated by a contributory public pension system, the shift towards non-public pensions has seen workers in small-sized companies and low unionized workers and project workers (parasubordinnati) remain poorly covered or excluded from the non-public system (Murro and Palmisano). Germany introduced the Rürup pension products to target freelancers and others not covered by occupational pension schemes, but their take up has been low due to insufficient incentives for low-income earners (Clerc-Renaud *et al.*). Perhaps the Netherlands stands out with an enviable 91% occupational pension coverage and high replacement rates, driven through quasi-mandatory rules governing industrial wage contracts (Haffner). Nevertheless, it is not clear how the coverage of occupational pensions in the Netherlands may change as the labour market evolves.

The second challenge concerns the fiscal burden of incentivising non-public pensions. For instance, Ireland effectively exempts income cycled through the occupational pension system from tax (Jaiyawala *et al.*), while the Netherlands does so up to a certain retirement income level. Sharma *et al.* in particular discuss the large fiscal burden of occupational and private pension tax exemptions and subsidies in the UK. Such incentives may favour higher income earners. Moreover, the fact that future governments may increase taxes on retirement incomes to improve their fiscal position puts further uncertainty on retirement incomes (Sharma *et al.*).

The third challenge concerns balancing housing accumulation as a source of retirement income with the upward pressure high housing returns place on rental yields (Jaiyawala *et al.*) and the detrimental effect of house price booms on affordability for low-income owner-occupiers. Dötsch and co-authors in their case study of Hungary suggest that while Hungarians enjoy high net replacement rates via a contributory public pension, the system will come under strain and Hungary's high levels of home-ownership may offer a potential source of retirement income. While housing assets may be a source of retirement income, housing accumulation as a form of retirement saving may reduce housing affordability even in countries with high levels of home-ownership, as shown by the case studies for the UK, Italy, Ireland and the Netherlands. In Italy, affordability for low-income is becoming increasingly difficult due to higher prices and a shift away from public housing policy towards incentivising private ownership (Murro and Palmisano). In Ireland, Jaiyawala *et al.* show how the proportion of owner occupier housing has decreased since 1990s, with rental yields growing faster than house prices. The mortgage market also interacts with housing market outcomes. An active market encourages lending and home-ownership but may increase house prices, particularly if adequate supply is not met (Jaiyawala *et al.*). Active mortgaging may also expose household balance sheets to risk. In the Netherlands, after the post-GFC fall in house prices, less than one in five households owned homes debt-free with a large proportion of households with Loan to Value ratios of greater than 1 (Haffner). While policies to restrict lending may reduce debt risk and make prices more affordable, they may lock lower income earners out of the housing market.

To conclude, an ageing population means the fiscal burden of publicly funded pensions will increase. Policy makers and researchers face open questions about the role of housing and occupational and private pensions in retirement policy. By shedding light on the myriad of possible policies and institutional structures in some countries within Europe, this book will be a useful reference point for policy makers and researchers tackling these questions.