

Potentiality of reverse mortgages to supplement pension: the case of Chile

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Abstract

Reverse mortgages have been established as an alternative for generating liquid flows of income during retirement in some developed countries. Given that the risks associated with lower income during old age are usually covered by a wide range of sources of funding, this paper analyses the potentiality of reverse mortgages as alternative income during old age. This work focuses on the case of Chile, based on information extracted from national surveys that map out the behaviour of representative individuals divided into income quintiles. The changes from 2010 to 2050 are observed on the basis of reasonable assumptions. The pension replacement rates have been found to have increased by nearly 30 points as a result of incorporating life annuities derived from property assets. This result supports the concept of not just fixing policies aimed at improving formal pension schemes, but facilitating private financial mechanisms that generate other suitable forms of income during old age derived from other assets.

Keywords: reverse mortgage, private pensions, pension funds, defined contribution.

JEL: G23, J32, G22, D14, G21.

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